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Against the Grain: Nonmarket Strategies of Foreign Owned Firms

The relation between nonmarket actors, institutional pressures and the nonmarket behavior of foreign firms in an open and regionally integrated economy

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Against the Grain: Nonmarket Strategies of Foreign Owned Firms

Een wetenschappelijke proeve op het gebied van de
Managementwetenschappen

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door

Cosmina Lelia Voinea
geboren op 22 mei 1981
te Plenita, Roemenie

Promotor: Prof. dr. H.L. van Kranenburg

Manuscriptcommissie:

Prof. dr. E. de Jong

Prof. dr. D.G. Van Den Bulcke (Universiteit van Antwerpen, België)

Prof. dr. R. Narula (Universiteit van Reading, Verenigd Koninkrijk)

Against the Grain: Nonmarket Strategies of Foreign Owned Firms

An academic essay in
Management Sciences

Doctoral Thesis
to obtain the degree of doctor
from Radboud University Nijmegen
on the authority of the Rector Magnificus prof. dr. S.C.J.J.
Kortmann,
according to the decision of the Council of Deans
to be defended in public on Tuesday, January 31, 2012
at 15.30 hours

by

Cosmina Lelia Voinea
Born on May 22, 1981
in Plenita (Romania)

Supervisor:

Prof. dr. H.L. van Kranenburg

Doctoral Thesis Committee:

Prof. dr. E. de Jong

Prof. dr. D.G. Van Den Bulcke (University of Antwerp, Belgium)

Prof. dr. R. Narula (University of Reading, United Kingdom)

*Dedicated to my parents,
Costi & Dorina*

Un cuvânt pentru părinții mei ...

Această carte este dedicată părinților mei, Costi și Dorina.

Tată, adevăratul erou al vieții mele, mi-ai împlinit copilăria. De nenumărate ori sacrificiul și dragostea sa altruistă mi-au oferit tot ce un copil ar putea să viseze de la viață. Tatăl meu are cel mai blând și pur suflet din lume. Pentru el familia este cea mai importantă împlinire a unui om și tata și-a dedicat toată viața nouă, familiei sale. Tatăl meu a muncit mult pentru ca eu și sora mea să putem avea o viață bună. Deși toată viața a muncit greu, tata a găsit mereu energie, răbdare și timp să ne asculte poveștile de copil și să se joace cu noi.

Acum, după ani mulți trecuți peste parul sau carunt, după munca grea, după multe suferințe, tata încă mai găsește timp și energie să ne asculte poveștile de adult și să ne ajute cu tot ce avem nevoie. De la tata am învățat poate cea mai importantă lecție a vieții: să găsești mereu echilibrul între muncă, ambiții și bucuria vieții. El ne spune mereu că trebuie să ne bucurăm de viață și să învățăm să o trăim cu bine și cu rău.

Niciodată nu îmi voi putea arăta recunoștința și iubirea ce ți le port. Te iubesc tatăl meu scump și dulce.

Îți mulțumesc că ești!

Fiecare om are în viață o persoană a cărei importanță și valoare este incontestabilă și de neuitat. Unicul cuvânt care se rezumă spre acea persoană este simplu spus: mama. Pentru că mama este unică, pentru că mama este acolo, indiferent că este cu trupul sau cu sufletul, e acolo lângă mine, îmi este profesorul vieții.

Când scriu aceste rânduri mă gândesc cu palpitație la toate momentele aproape de mama, o simt lângă mine, și o apreciez pentru că îmi este mai mult decât o mamă.

Un sentiment a existat întotdeauna în sufletul meu încă de când eram copil și până în aceste clipe ale maturității: cu mama nu îmi era niciodată frica de nimeni și de nimic. Încă simt același lucru. Această carte nu ar fi existat niciodată fără dragostea, sprijinul, intuiția și sacrificiile mamei mele, Dorina, careia îi datorez totul. Te iubesc mamica scumpă.

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Words for my family...

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CHAPTER 1

INTRODUCTION

1.1. Research background and objective

Globalization along with the creation of free trade regions has amplified the presence of foreign owned firms in many economies in search of competitive advantages offered by the lack of tariffs and nontariff barriers, free flow of goods, services, factors of production and access to larger markets. Besides from the numerous advantages seized from internationalization and the regional integration of host countries, there is a plethora of issues which foreign companies encounter in regionally integrated environments. Such issues range from institutional antecedents and differences between home and host countries to the specificities of the host political, legal, and social systems (Beck et al., 2001; Hillman, 2003; Hymer, 1976; Zaheer, 2002; Miller & Richards, 2002). In regionally integrated countries these issues are amplified by the interplay of national and supranational institutions and forces which regulate foreign owned firms' activities and even favor domestic firms (Miller & Richards, 2002). As a result foreign owned firms augment their exposure and vulnerability to host uncertainties and pressures (Miller, 1991; Dean & Brown, 1995). Regardless of the sources of these pressures, whether national or supranational, they amplify the competitive disadvantage (or liability of foreignness) faced by foreign owned firms vis-à-vis indigenous firms (Hymer, 1976; Zaheer, 2002; Miller & Richards, 2002). This disadvantage can even cause foreign firms to under-perform domestic firms (Miller & Richards, 2002) due to wide range of unfamiliarity costs vis-à-vis market (economic) and nonmarket issues (social, legal, and cultural related) (Hennart, 1982; Buckley & Casson, 1976).

According to Boddewyn (2003, p. 299) 'Nonmarket refers to internal and external organizing and correcting factors that provide order to market and other types of institutions and organizations so that they may function efficiently and effectively as well as repair their failures.' While market issues and institutions have fairly economic intents, nonmarket institutions entail social, political, and

legal arrangements that complement market arrangements but are additionally concerned with collective interests and core values that go beyond pure market objectives (Baron, 1995). Such nonmarket matters are not related to the market arena but they can influence firm performance and competitive advantage (through what can often be regarded as conflicting nonmarket vs. market demands) especially in host integrated contexts where the interplay of national and supranational institutions amplify these conflicting demands (Rosenzweig & Singh, 1991). Few studies provide empirical evidence for the contribution of nonmarket matters to competitive advantage and implications for firm performance. Firms that undertake nonmarket actions are more likely to experience above-normal performance (Shaffer & Hillman, 2000). Shaffer's study was however limited to government directed actions. However, corporate political actions were also proved to have a positive effect on firm performance (Bonardi, Hillman and Keim, 2005; Blumentritt and Nigh, 2002). Furthermore, according to Tian and Gao (2006), nonmarket behavior can also have a great influence on organizational legitimacy and reputation and, when absent, the ability of the firm to pursue its goals and accumulate resources can be substantially reduced.

Moreover, Usero and Fernández (2009) found a comparable dissimilarity between market and nonmarket actions in the effect on firm performance in an international environment. Their study reveals that in a host economy firms which opt for a follower strategy, in pursuit of eroding competitors's first mover advantage by undertaking more market actions, do not succeed in this abrasion. However, in the same global context followers that undertake more nonmarket actions were successful at taking back market share from the pioneers in a host economy (Usero & Fernandez, 2009). Their findings sustain the complementariness of nonmarket strategies to the market ones and their contribution to competitive advantage. Ma (2004) also links the use of nonmarket strategies to a more global corporate competitive advantage by attempts to align other parties' interests with that of the focal firm, providing possible competitive advantages by opening windows of opportunities, removing external obstacles or neutralizing threats. Thus, nonmarket strategies not only can help realize competitive advantage, they can also help offset competitive disadvantage and open up opportunities for foreign owned firms facing a liability towards the host firm (Baron, 1995). Therefore, foreign owned firms should go beyond formulating host market strategies and thoroughly consider complementary matters and strategies to encounter complex influences outside the market spam, to increase their competitive position in the host environment and reduce their liability of foreignness (Baron, 1995; Bonardi, Holburn & Van den Berg, 2004; Hillman & Hitt, 1999; Prakash, 2002).

These strategies entail actions carried out in public arenas (Baron, 1995; Schaffer & Hillman, 2000) to encounter influences from various nonmarket institutions, national or supranational, such as interest groups, political institutions, the media, regulatory institutions, standards agencies, which all constitute the nonmarket business environment (North, 1990). Furthermore, the nonmarket environment is characterized in terms of institutions, issues, interests, and information (Baron, 1995). These various nonmarket components, issues and interests, vary across countries. Some nonmarket issues and interests can be less salient in one country, while public opinion can regard same issues as more emerging and salient in another host setting. The institutional system in regionally integrated countries is governed by a different set of transactions than in countries which are not members of supranational entities.

The objective of this thesis is to investigate and explain the nonmarket behavior and strategies of foreign owned firms in an open and regionally integrated economy. This study further explains why firms undertake nonmarket actions and formulate nonmarket strategies. To better understand this behavior more insight into the nonmarket forces and environment constitutes a starting point. While market forces are taught worldwide, and the relevance of the market environment is undisputed (Porter, 1980), a holistic approach towards a nonmarket framework is yet absent. Scholars emphasize the need to understand the dynamics and determinants behind nonmarket behavior and strategic implementation (Bonardi & Keim, 2005; Boddewyn & Brewer, 1994; Getz, 1997; Hillman & Hitt, 1999; Hillman, 2003). However, to date the field literature is underdeveloped and merely enumerates an inventory of different actions to be used in diverse situations. Diverse determinants of such behavior are proposed in a number of studies, nonetheless barely any have been empirically tested (e.g. Hillman & Hitt, 1999; Baron, 1995; Boddewyn & Brewer, 1994). So far, the field has focused on large countries, such as United States (US), where different nonmarket strategies are expected to be used or are considered ethically appropriate than in open economies members of supranational entities (Getz, 1997). Therefore, this study will focus on the nonmarket behavior of foreign owned firms in a small open economy. A number of pertinent research questions guide us in achieving our objective and are further presented in the following section.

1.2. Research questions

As we discussed in the previous section, in open regionally integrated host economies the interplay between national and supranational tiers and institutional framework amplify the market and nonmarket complexity and challenges faced by the foreign owned firm. In these host contexts, in addition to the supranational-national institutional interplay, simultaneously foreign owned firms have to manage various dynamics of this environment albeit economic, political, social, legal, and cultural. These factors trigger foreign firms to utilize various nonmarket actions or to design specific strategies to manage these influences. In order to better understand this behavior, we need to elaborate this vast range of underlying influences, actions and determinants leading up to this nonmarket conduct. Therefore, the central question guiding this study is:

Research question: What explains the nonmarket behavior and strategies of foreign owned firms in an open and regionally integrated host economy?

Before commencing with the examination of nonmarket matters, we will firstly become acquainted with the foreign owned firms which are present in a particular host economy, with the characteristics of these firms and their market behavior. For this purpose we tap into market aspects such as idiosyncratic types of firms, location decisions and the colocation or agglomeration patterns which they exhibit in the host country. The literature indentifies different advantages brought by colocation, such as increasing returns, technical externalities and knowledge spillovers (Marshall, 1890; Venables, 1996), transportation costs (Fujita & Thisse, 2002), location attractiveness and investment's expected profitability (Shaver, 1998). However, numerous disadvantages have also been acknowledged such as an increased competition (Head, Ries & Swenson, 1995) and spillover risks (Shaver, 1998). As prior studies highlight various forces for and against colocation, our interest falls on how different firms' characteristics relate to location decisions and the colocation patterns exhibited by various types of foreign owned firms present in the open and regionally integrated host economy. Consequently, the following research sub-question becomes relevant:

Research sub-question 1: What are the colocation patterns exhibited by various types of foreign owned firms in an open and regionally integrated host economy?

Once we have formed a clear overview on the types of foreign owned firms present in the particular host country and on certain market aspects of these

firms, we will commence our exploration of nonmarket matters by conducting a thorough literature examination. As the nonmarket field is underdeveloped and many scholars sustain that academic theory grew out of the (management) practice (Collins & Porras, 1994), it is important to discuss the main nonmarket perspectives and to further utilize these perspectives into our future analysis. The nonmarket environment explanation is built on various theoretical perspectives regarding its nonmarket components. For this purpose, we formulate the following sub-question:

Research sub-question 2: What explains the nonmarket environment?

After becoming acquainted to the theoretical status quo of the field, we proceed with our exploration by investigating the nonmarket institutional framework. We investigate the background and the complexity of nonmarket institutional pressures and how foreign companies are dealing with these influences. We study the nonmarket institutional pressures in relation to the nonmarket actions utilized to manage these influences in a regionally integrated host economy (Hymer, 1976; Zaheer, 2002; Miller & Richards, 2002). Based on institutional, international business and corporate political strategy literature, we explore institutional pressures from national regulatory institutions, supranational regulators, political institutions, standards agencies, interest groups and the media and the nonmarket responses or actions to these pressures. Therefore, we formulate the following research sub-question:

Research sub-question 3: What explains the relation between nonmarket institutional pressures and the increase in nonmarket actions undertaken by foreign owned firms in an open regionally integrated economy?

Uncovering the nonmarket institutional pressures improves the understanding of the nonmarket framework and provides further input to study the type of nonmarket strategies that can be implemented to cope with such institutional effects (Baron, 1995; Bonardi et al., 2006; Hillman & Hitt, 1999; Prakash, 2002). Thus, in order to manage or minimize the effects of the various nonmarket institutions in the host environment, foreign owned firms can develop and utilize specific nonmarket strategies. The type of such strategies can be determined by firm characteristics, their internal resources and previous international experience (Bonardi & Keim, 2005; Boddeyn & Brewer, 1994; Getz, 1997; Hillman & Hitt, 1999; Hillman, 2003). These strategies reduce the foreign owned firms' exposure to nonmarket pressures and can improve their competitive advantage (Mezias, 2002). Thus, the following research sub-question is appropriate:

Research sub-question 4: What are the determinants and the types of nonmarket strategies implemented by foreign owned firms in an open and regionally integrated host economy?

Out of the plethora of nonmarket institutions affecting foreign owned firms' business operations, a reputable significance is attributed to the media which acts as the watchdog for the other institutions. Once we have explored the overall nonmarket strategies undertaken by foreign owned firms to generally manage influences from the multitude of nonmarket institutions, we select one of the most important nonmarket institutions, namely the media and we further study from a resource base perspective specific actions utilized by these firms to manage its complex impact. Foreign owned firms develop tools and actions to manage the influence of media and to capture maximum benefits brought by media's functions in the host country. Therefore, the following research sub-question is appropriate:

Research sub-question 5: What types of actions do foreign owned firms utilize to deal with the media in an open and regionally integrated host economy?

The research questions formulated above represent the mass of elements which need to be considered and investigated in order to understand the overall nonmarket behavior of the foreign owned firms in a regionally integrated economy. Each research question will be separately elaborated and answered in a different essay or chapter of the thesis. After presenting the research questions and their relevance for the overall goal of this thesis, in the following section we proceed to describing the research setting.

1.3. Research setting: the Netherlands

The present section explains the rationale behind choosing the Netherlands as the appropriate research setting for this study by describing its relevant characteristics as a host economy. The choice for the Netherlands as a suitable research setting for studying the nonmarket behavior of foreign owned firms has multiple grounds: (a) the open economy character; (b) the high inward and importance of foreign direct investment (FDI) flows; (c) the 'Polder' Model background; and (d) active role in the European Union (EU).

The Netherlands is a small open economy with a population of 16.5 million and a labor force of 7.86 million (Eurostat, 2010; Walsh 1988, Hogenbirk 2002). After 26 years of uninterrupted economic growth, the Dutch economy is highly open

and dependent on foreign trade and financial services. In 2010 exports amounted to €451.3 billion, placing the country on rank 9 in the world, while imports amounted to €408.4 billion which ranks 11 worldwide (Eurostat, 2010). The country has been one of the leading European nations in attracting FDI and it is one of the four largest investors in the US. While in 2009 the stocks of outward FDI amounted to €932.2 billion, in 2010 the outward FDI totaled €950.8 billion making Netherlands the fifth largest investor in the world. The main destinations of its investments were predominantly US, Germany, France, UK, India and China (Eurostat, 2010).

However, the Netherlands is not only an important investor abroad but also one of the countries that receive highest FDI flows. For this reason over the past decades the number of foreign owned firms in the Netherlands has increased significantly. This development coincides with a worldwide sprint in foreign investments made by multinational enterprises (MNEs) (Bartlett & Ghoshal, 1989; United Nations, 1998, 1999, 2000; Hogenbirk, 2002). The stock of inward FDI in 2009 amounted to €654.6 billion which confers the Netherlands the fifth rank in the world, while in 2010 the Netherlands received an inward FDI of €687.8 billion placing the country on the seventh position in the world (Eurostat, 2010). Therefore, the Netherlands represents a suitable country for the study of foreign owned firms.

Foreign companies deliver 30 percent of the total volume of business in the Netherlands and account for 21 percent of overall investments. Additionally, they are responsible for 22 percent of investments in research and development (NFIA, 2010). The total turnover rendered by these foreign firms sums to €366 billion, representing 30 percent of the total turnover in the Netherlands (NFIA, 2010). The top five sectors where foreign owned firms operate are energy – oil, gas, and coal; energy – bio-fuels; healthcare; chemicals; and food and nutrition (NFIA, 2010).

Foreign firms employ more than 1.179 million people, almost 15 percent of the total Dutch labor market size (EVD – Holland Trade, 2008). While 61 percent of the foreign owned firms' employees work for an EU owned enterprise, almost half of the total foreign firms turnover is given by EU owned firms. This entails that the revenue of EU owned firms is relatively more labor intensive than non-EU owned firms. Moreover, the Netherlands is the biggest beneficiary of non-EU foreign investment of all 27 EU countries (Eurostat, 2010). The top ten home countries of the foreign owned firms operating in the Netherlands are: US, United Kingdom, Germany, Belgium, Luxemburg, France, Switzerland, Ireland, Japan, Spain (DNB, 2009).

Another characteristic of the Netherlands which makes it a suitable setting for our study is the 'Polder' Model society. The underlying operating assumptions of the 'Polder' Model are: consensus policy in economics, consensus decision-making, pragmatic recognition of pluriformity, and cooperation despite differences. The 'Polder' Model is characterized by the tri-partite cooperation between employers' organizations, labor unions, and the government. As a result, abundant negotiations take place between government, businesses (domestic and foreign owned firms) and society. Therefore, the existence of this model in the Netherlands becomes relevant for the study of nonmarket implications brought by the numerous negotiations and consensus seeking between employers' organizations, labor unions, government, or how foreign firms operating in this environment cope with such implications. The 'Polder' Model also implies numerous rules and regulations which oversee an extensive welfare state. This provides us with the opportunity to investigate the influences triggered by the abundant rules and regulations on the frequency of nonmarket actions and the strategies chosen by foreign companies to counteract these influences.

As mentioned earlier, the Netherlands is also a founding member of the EU. In the case of the Netherlands, the membership to the EU counteracts the adverse scale effects of small size economy by extending the domestic market (Armstrong & Read, 1998). Even though the Netherlands is a small size market, due to its EU membership (which insures free flow/ access to the EU market size of 5.02 billion inhabitants) and geographical location (as an access-gate to the EU area), the potential market of the Netherlands becomes enormous. For this reason, multinational enterprises (MNEs) have chosen this host country as strategic orientation. However, they do have to cope with the implications brought by the existence, functions and interplay of supranational institutions on the host context. Doh and Guay (2006) sustain that the European parliamentary systems are more cooperative and less confrontational than the US parliamentary system. As a result, more input from nonmarket institutions, actors and businesses is allowed in the EU decision making processes.

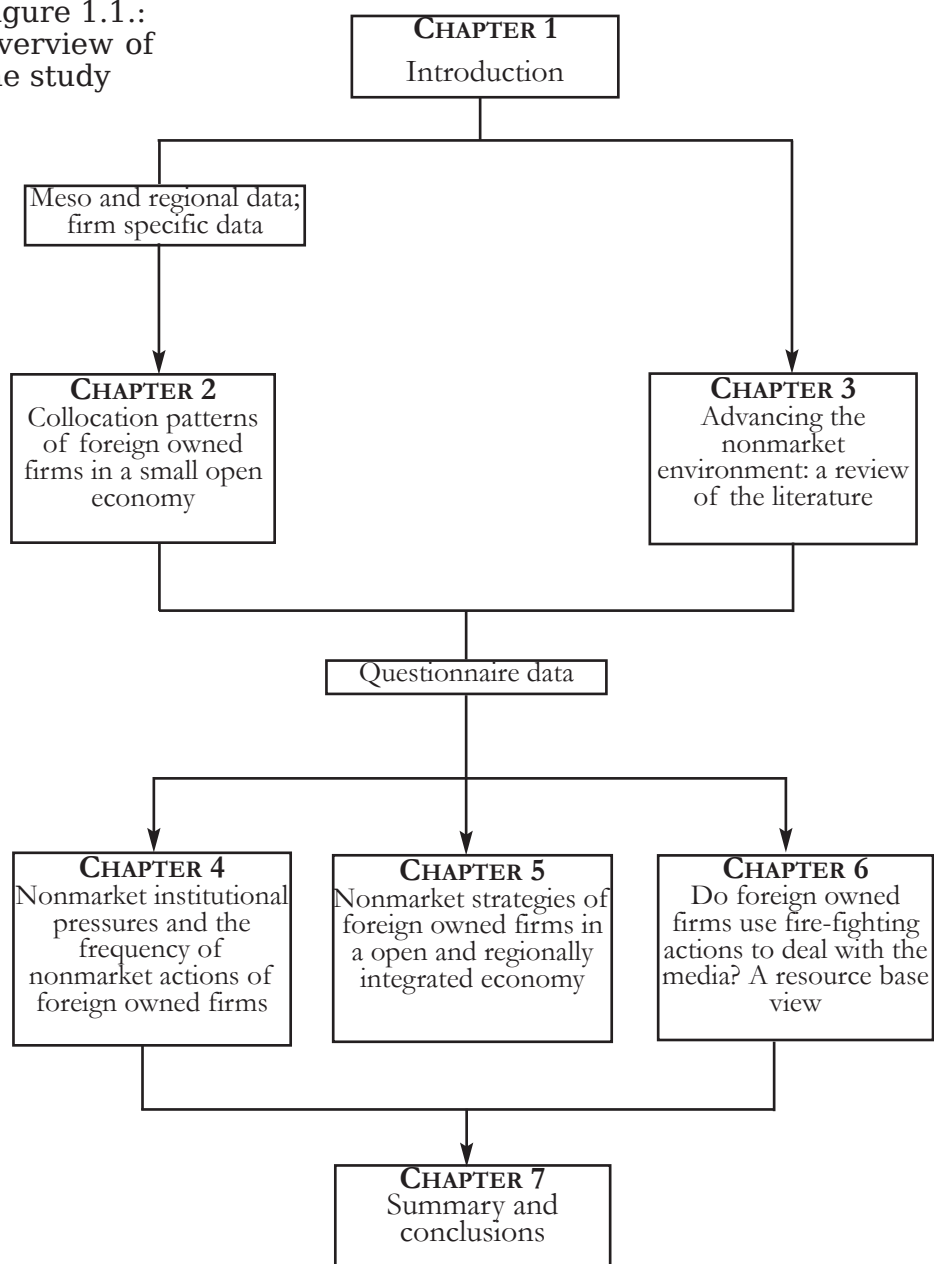
Therefore, this host setting becomes a suitable and worthy example of a host economy belonging to a larger supranational entity in which to investigate the impact of various institutional factors/ implications including supranational ones on business activities of foreign companies.

After having an overview of the main reasons for choosing the Netherlands as a suitable research setting for our study, the next section presents an overview of the chapters which segment this thesis.

1.4. Outline of the study

This dissertation is structured into seven separate chapters which independently elaborate on a specific research (nonmarket) issue illustrated by each sub-question (see Figure 1.1). Chapter 1 explained the background of the study, the research objective, questions and setting. Chapter 2 presents the types of foreign owned firms operating in the Netherlands according to various firm characteristics and their market behaviour. We use firm specific data, as well as meso and regional data to investigate which types of foreign owned firms operate in the Netherlands and to explain their collocation decisions and patterns. For a deeper understanding of our sample of foreign firms and their collocation decisions and agglomeration patterns, we also compare the collocation blueprints of the foreign firms to the ones of the domestic companies. Once a clear overview on these firms is formed, Chapter 3 begins the study of the nonmarket framework by presenting an outlook over the generic literature and theoretical explorations of the nonmarket environment. Thereafter, Chapter 4 analyzes the background and complexity of nonmarket institutional pressures in relation with the nonmarket actions utilized by the foreign firms to cope with these pressures. Having a clear grasp on the most significant nonmarket institutions and how they can influence the activities of foreign firms, we proceed in Chapter 5 with the types of nonmarket strategies implemented by foreign owned firms to manage nonmarket influences. The type of nonmarket strategy implemented may be determined by firms' characteristics, their internal resources and previous international experience. Furthermore, Chapter 6 investigates the effects of one of the most important nonmarket institutions, namely the media and, from a resource base perspective, which actions can be undertaken by these firms to manage its complex impact. Chapter 7 presents a summary of our overall findings, it discusses the limitations of our study and it provides future research avenues.

Figure 1.1.:
Overview of
the study



CHAPTER 2

COLOCATION PATTERNS OF FOREIGN OWNED FIRMS IN A SMALL OPEN ECONOMY¹

This chapter addresses the colocation or agglomeration patterns of foreign owned firms in the small open economy of the Netherlands. The empirical evidence shows that foreign owned firms exhibit different regional colocation patterns than domestic firms for the following industries: mining, construction, transport and communications, services, and trade industry across the twelve Dutch provinces. In the agriculture industry, forestry and fishing industry, and the manufacturing industry the colocation patterns of the domestics and foreign owned firms are similar. Empirical results also validate that firm size affects the agglomeration behavior of foreign owned firms; large foreign companies exhibit different colocation blueprints than smaller and, medium size enterprises. Related to industry, large foreign owned firms target mainly the trade industry and the manufacturing industry. Results confirm that young established foreign owned firms exhibit similar colocation patterns around older, more experienced foreign counterparts in the host economy. Furthermore, the colocation patterns of foreign owned firms vary also according to different home countries. Firms coming from countries in proximity with the host economy reveal different colocation patterns than firms coming from more distanced countries. Our results strengthen the theoretical argumentation line that foreign owned firms

¹ This chapter resulted in the following publication: Voinea, C.L. & van Kranenburg, H. (forthcoming December, 2011). Colocation Patterns of Foreign Owned Firms in a Small Open Economy: Evidence from the Netherlands. *European Planning Studies*.

We would also like to express our gratitude to the scholars who provided valuable feedback and discussions during the presentation of this chapter at the following conferences:

- European Academy of International Business Annual Meeting, Valencia, Spain, December 13-15, 2009.
- Academy of International Business Annual Meeting, Rio de Janeiro, Brazil, June 25-29, 2010.
- European Academy of Management Conference, Rome, Italy, May 19-22, 2010.

value location attributes differently depending on firm characteristics and they also exhibit a different location pattern than domestic counterparts.

2.1. Introduction

The location of a foreign owned firm in the host country is an important strategic decision which is determined by cost factors, infrastructure, and/or the proximity to other domestic or foreign firms, so called colocation or agglomeration phenomenon (Wheeler & Ashoka, 1992; Head et al., 1995; Crozet et al., 2004). Various studies have shown that the decision to colocate is a deliberate strategy to compensate for a lack of resources related either to firm size, to internationalization experience or to specific country experience (Yu, 1990; Benito et al., 2003; Barkema et al., 1996). The literature identifies different advantages brought by the colocation phenomenon, namely increasing returns, technical externalities and knowledge spillovers (Marshall, 1890; Venables, 1996), transportation costs (Fujita & Thisse, 2002), location attractiveness and investment's expected profitability (Shaver, 1998). Conversely, many disadvantages have also been acknowledged such as increased competition (Head, Ries & Swenson, 1995) and spillover risks (Shaver, 1998). While the tendency in the economic literature was to singularly focus on geographic-specific factors leading to colocations, more recently the international business literature forwards firm specific characteristics as highly relevant as well (Ottaviano & Puga, 1998; Benito & Gripsrud, 1992; Chung & Song, 2004). As prior studies highlight various forces for and against colocation, our interest falls on how different firm specific characteristics affect the propensity to colocate and the colocation patterns or blueprints created by firms with idiosyncratic firm characteristics.

Although some studies focus on the heterogeneity of collocating firms (Shaver & Flyer, 2000; Chung & Song, 2004), most of these studies examine merely a subset of the firms in a region and often consider only one industry. Despite the continuous efforts to study the agglomeration trend, there are no attempts to identify which industries mostly contribute to this phenomenon. With the exception of Shearmur and Coffey (2002) studies on colocation have mostly ignored variations among the types of firms that make up an agglomeration or colocation area. Furthermore, studies revealing either similarities or differences in colocation behavior are mainly focused on classically external determinants of colocations in large economies. Smaller open economies generally offer an above average level of specific advantages, such as infrastructure, skills, and technological knowledge, which make them potentially attractive markets for

foreign direct investment (FDI) (Hogenbirk & Kranenburg, 2006). Consequently, the presence of foreign owned firms in a small economy can trigger various benefits such as additional labor, skills spillovers, and capital flows. Many small economies are nowadays members of trading blocks; this membership increases their location attractiveness as they become free gateways to a larger economic entity or market. As a result, the number of foreign firms has significantly increased in many small open economies (Hogenbirk et al., 2009).

Therefore, the aim of this study is to examine the colocation patterns exhibited by foreign owned firms with different firm characteristics in a small open economy which is part of a larger economic entity. We argue that depending of firm specific characteristics foreign companies assess differently the (strategic) colocation benefits. This study provides a deeper understanding of the relationships between firm characteristics and colocation or agglomeration patterns. The setting for this investigation is the Netherlands, a small industrialized country which is member of a larger economic entity, the European Union (EU). Following Walsh (1988) and Hogenbirk (2002), the Netherlands is classified as a small open economy, due to its various characteristics: population, aggregate economic activity, geographic area, availability of natural resources, technological level, and growth rate. The Netherlands represents the fifth largest beneficiary of foreign investment in the world and, due to its favorable location and active role within the EU, many multinational enterprises (MNEs) have chosen the Netherlands as strategic orientation. We selected more than 12.000 foreign owned firms present in the Netherlands in 2008, operating in eight main industries which reveal both a notable export-orientation and a host-market focus (Carlton, 1983; Bartik, 1985; Feldman, 2003; Head et al., 1995; Waddell et al., 2003).

The structure of the study is as follows. Section 2 presents different colocation perspectives along with the advantages and disadvantages brought by the agglomeration phenomenon. Section 3 discusses the colocation patterns of foreign owned firms according to different firm specific characteristics. In addition, we present our expectations with respect to the particular discussed firm characteristic and the propensity to colocate. Section 4 gives an overview of the sample population, research data and methods of analysis. Section 5 presents our empirical findings regarding the colocation patterns among foreign owned firms both at regional level and across all Dutch industries. Section 6 discusses the empirical results and explains the colocation blueprints depending of firm characteristics. Section 7 concludes with the implications for policy makers, firms, it discusses the managerial connotations of our study and provides ideas for future research.

2.2. Colocation perspectives

Colocation is a topic broadly discussed in the literature (Head, Ries, & Swenson, 1995; Krugman, 1991; McCann & Mudambi, 2004; Wu & Strange, 2000). It refers to the physical proximity of firms, agglomeration of firms (Rafii, 1995; Akgüngür, 2006; Hatfield, Lamb, & Tegarden, 2007; Huang, Shekhar, & Xiong, 2004) or bunching (Brandenburger & Nalebuff, 1997; Ghemawat & Thomas, 2003). Success in economic development is closely related to the development of colocations or concentration areas and related institutions. This dates back to Alfred Marshall's notion of industrial regions where he contends that industries tend to colocate in distinct geographical districts (Marshall, 1890; Akgüngür, 2006). The most relevant aspect of the Marshallian theory is that long-term competitiveness is based on the evolution of aggregated skills and competencies, which depends on cooperation as well as competence. Colocation areas lead to scale economies, increased specialization, division of labor and greater access to information (Luo, 1999; Britton, 2003). Schumpeter (1934) further elaborated on the significance of colocations in creating revolutionary technology through shared knowledge where the main stimulus for fundamental economic change was innovation. Evolving out of Fordism and mass production, Piore and Sabel (1984) placed a new focus on industrial colocations through the merits of vertically disintegrated and location fixed production. Along similar argumentation lines Post-Schumpeterian researchers also complement the discussion of colocation activity (Hirschman, 1958; Akungur et al, 2003). Dahmen's idea (1991) of development blocks and Perroux's (1950) growth pole premise emphasize the importance of inter-firm locational linkages in the development process. Such theories are further complemented by evolutionary economics pioneered by Nelson and Winter (1982) and studies on colocation dynamics (Andersen, 1994).

Overall the economic development and regional cluster literature stresses that colocations enhance firms' performance through the diffusion of new technologies, use of advanced techniques, business strategies, informal exchange of information, transfer of skills and knowledge that occurs via shared labor markets. Knowledge spillovers are phenomena of close proximity, especially when knowledge is tacit in nature and when technological know-how is specialized to a particular region (Autant-Bernard, 2000). As knowledge spillovers increase the motivation to colocate (Feldman, 2003), the economic rationale emphasizes that agglomeration economies are associated with spillovers and linkages. Conversely, the more grounded literature underlines bounded rationality and information asymmetries as some of the main reasons driving firms to

colocate (Chung & Kalnins, 2001, Shaver et al., 1997, Barkema et al., 1996). Given that firms choose locations that seem to best fit their strategic goals, the specific location decision inside the country can be more essential than the decision at the country level (Brandenburger & Nallebuff, 1997). Furthermore, firms' location decisions could also be influenced by the presence of other firms in a region. For instance, foreign and local incumbents within a region can pose great threats and challenges to new entrants. Simultaneously, they can constitute great sources for complementary resources and learning opportunities (Chang & Sekeun, 2005).

Colocation can also be viewed as a value adding web, with a series of linkages between domestic and foreign owned firms in relation to a specific business sector. These linkages are often interdependencies of different strength and quality which define the boundaries of the colocation area which may entail domestic firms, foreign owned ones or a combination of the two. These firms constitute the actors in a colocation area, actors which can be categorized into horizontal, vertical and lateral. The horizontal actors are represented by the firms with a common industrial background which perform activities related to the central industry in the colocation area. The vertical actors encompass the supply related firms of the products or services delivered by the horizontal ones. In a colocation area entailing the presence of FDI, the lateral actors are represented by diverse auxiliary agencies or institutions which guide and support the foreign firms in the area (regulatory institutions or economic development agencies).

Classical and neo-classical location theory prescribes that the choice for colocation is also determined by cost factors and infrastructure in the region (Christensen & Drejer, 2005). These cost reducing factors lead firms to colocate close to main customers or suppliers, thus, reducing costs of inter-firm transactions through this proximity. Colocating firms benefit from access to shared resources like infrastructure, and a local, specialized labor market. Transportation infrastructure is often considered a main factor in firms' colocation choices and agglomeration behavior (McCann & Shefer; 2004). Dunning (1977) upholds that foreign owned firms participate to colocations in order to gain access to context specific resources, such as production factors and natural resources of the area. Valuable industry resources also echo attractive markets for the multinational companies. Through colocation, foreign owned firms benefit from an increased availability of complementary products and services and have better access to suppliers, specialized employees in the local labor pool, specific information and public institutions. They have a higher motivated workforce due to the localized competitive environment (Pinch et al.,

2003). Studies also show that foreign firms active in colocation areas tend to be even more innovative than isolated firms (Smith & Smith, 1998). From a resource-based perspective the combination of resources that are only available in specific areas enable colocating firms to develop additional competencies that are inaccessible to other firms. These competencies are specific to the colocation areas and they result from the combination of resources available within the respective regions; such network competencies are not owned by a single firm but they are hosted in all firms or institutions of the colocation area. Overall, the main advantages brought by colocating entail a higher innovation, growth, productivity, competitiveness, higher new firm formation and higher job growth rates.

2.3. Colocation patterns: similarity and dissimilarity

The totality of location choices made by firms or a group of firms within a country constitutes a certain location pattern or blueprint, whereas mentioned earlier often unequal location distributions are found (Shaver, 1998). An assessment of location and density patterns becomes the first phase in the identification of potential colocation patterns or regions (Hatfield et al, 2007).

Similarity and dissimilarity reasons in colocation patterns within and between group of firms arise from the geographical concentration of production factors, government policies, and infrastructure implications for both domestic and foreign owned firms (Shaver, 1998; Steinle & Shiele, 2002). Apart from the external reasons guiding firms to colocate and exhibit a certain colocation pattern, there are also similarities and dissimilarities in firms' collocating behavior which are internally grounded, i.e. firm specific characteristics (Glückler, 2007). These characteristics diverge not only within the foreign owned bunch but also when studies in contrast to their domestic counterparts.

An increasing number of studies show an important liaison between firm characteristics and colocation patterns, liaison explained by the argument that depending on their specific firm characteristics, companies assess colocation attributes in different ways. A prime characteristic which may lead to dissimilar colocation pattern among firms is their foreign vs. domestic origin. Shaver (1998) proves that domestic firms exhibit different colocation patterns than foreign owned firms in the United States. Foreign owned firms coming from countries in proximity with the host economy show different colocation patterns than firms coming from more distanced countries (Chung & Song, 2004). Crozet et al.

(2004) combine data on regional economic characteristics with basic firm characteristics such as investor nationality. Results hint to a variation in the assessment of regional economic characteristics according to investors' nationality. Other studies show that colocation patterns can also vary according to firm size. Dominant and large firms exhibit a different colocation behavior and patterns than smaller firms (Hatfield, Lamb & Tegarden, 2007). Gordon & McCann (2000) debates that foreign owned firms tend to imitate other firms whose industry affiliation, age, experience, or origin is relevant to their own situation. Generally, studies which analyzed the relationship between firm characteristics and the propensity to colocate consider only one singular firm characteristic at a time overlooking the vast variety and interactions of firm characteristics. Therefore, this section discusses the colocation patterns of foreign firms in a host country according to firm characteristics and the interactions of these characteristics which may lead to diverse agglomeration patterns.

2.3.1. Colocations of foreign vs. domestic owned firms

Various studies on FDI explain why foreign owned firms decide to locate in the same areas where domestic firms are operating, phenomenon causing similar colocation patterns of domestic and foreign firms (Hansen, 1987). Similar colocation patterns can be caused by the geographic concentration of production factors or by a similar assessment of other specific location advantages between both foreign and domestic firms. Furthermore, industry agglomeration economies may exist where positive externalities are arising from the geographic colocation of industry (Head et al., 1995). Industrial areas or forces may encourage both foreign and domestic firms from the same industry to cluster together resulting in similar colocation choices (Hogenbirk, 2002).

On the other hand, many studies show the dissimilarity in colocation behavior between domestic and foreign owned firms (Harrison et al., 2004a). Dissimilar colocation patterns arise from differences among foreign and domestic firms with respect to their technologies or customer bases; the existence of agglomeration economies among foreign owned firms that motivate also other foreign companies to colocate together; changes in colocation attractiveness over time that motivate foreign firms to value locations in a different way than incumbent local firms (Hogenbirk, 2002). Foreign owned firms might estimate certain regional characteristics more advantageous than their domestic counterparts or they might even assess these regional characteristics in a different manner than other foreign owned firms (Gordon & McCann, 2000; Harrison et

al., 2004b). Import intensive foreign firms might favor colocations around easy access to imports (Shaver, 1998; Maoh & Kanaroglou, 2007). Shaver argues that 'there might be agglomeration economies among foreign owned firms regardless of where domestic firms colocate' (Shaver, 1998: 473), referring to colocations of (specialized) foreign capital and the importance of colocation externalities for these firms. Hymer (1976) and Dunning (1977) debate that in case of foreign owned firms it is mainly the characteristics of these firms which will lead to a different location pattern than the domestic ones. Due to the assets that foreign firms poses or due to the liabilities they face (which differ from the domestic ones), they are attracted to regions with different characteristics than the ones domestic firms tend to favor (Holmes & Stevens, 2002, 2004). Additionally, foreign owned firms can exhibit different colocation patterns if they are late comers to an already established industry or the optimal location choice for that industry changed over time (Shaver, Mitchell & Yeung, 1997). Furthermore, similar colocation tendencies among foreign firms regardless of where the domestic ones are established can be sustained by liability of foreignness arguments (Caves, 1992). They offset these disadvantages through skills and knowledge which is not available in the host country but shared by the foreign network. They make use and share knowledge through colocation linkages and further spillovers. Glickman and Woodward (1988) acknowledge that the location decision made by a foreign firm to a certain region is often followed by other foreign companies, phenomenon frequently resulting in colocations of foreign capital (Ghemawat & Thomas, 2003). Although foreign firms face certain liabilities in a host country compared to indigenous firms, they are able to offset these disadvantages by relying on firm-specific intangible assets and networks which may differ from the domestic ones. Therefore, we expect that the colocation patterns of foreign owned firms differ from their domestic counterparts.

2.3.2. Colocations according to country of origin

Another firm characteristic which can explain colocation patterns among foreign owned firms is country of origin. Economic geography literature focusing on the location choices made by foreign investors supports the stream of agglomeration forces among firms from the same home country (Devereux & Griffith, 1998; Javorcik, 2004). Groups of firms coming from a certain home country have different location strategies than their counterparts from another home country (Crozet et al., 2004). Erken et al. (2004) also confirm the dominance of colocation effects among firms with same home country of origin

after studying the location choices of French multinationals in different EU regions. Furthermore, Mayer and Mucchielli (1999) observe the same colocation phenomenon of Japanese firms in Europe on both a national and regional level. Shaver (1998) also found that Japanese firms exhibit different location patterns than US domestic firms in the manufacturing industry. Head et al. (1995) show that new Japanese firms entering the US replicate the location choices of other Japanese firms which are already operating in the host country.

Foreign owned firms coming from the same country of origin may derive stronger network externalities from their co-nationals than from other firms coming from different countries (Suarez-Villa & Walrod, 1997). He (2002) emphasized that firms from the same country prefer to colocate to have immediately access to the needed information to do business in the host environment and to reduce the search costs for information. Firms may also be attracted to the actions of other co-national firms than to those of different nations, revealing a type of trait-based imitation. Chen et al. (2010) and Yang and Hsia (2007) stress the importance of organizational dynamics of production networks and the asymmetrical power of relations within the supply chains of firms as significant driving forces of similar colocation patterns among firms from the same country of origin. Smaller suppliers from the same country of origin could be forced to establish overseas facilities in close proximity to their key clients' plants abroad to retain their business. Duranton and Overman (2008) also show that vertically-linked firms prefer to colocate at the same regional scale in a host country. This colocation tendency may even be stronger among firms from countries of ethnocentric orientations; Korean and Japanese firms frequently emulate each other (Anas et al., 1998; Chung & Song, 2004; Head et al., 1995; Gorman & Kautonen, 2004). Network externalities and marginal benefits from colocation might then be higher when firms from the same country of origin colocate, than when firms with different origins colocate. The marginal benefits such as spillovers of nation-specific experience or knowledge (especially for firms coming from countries where ethnocentrism is strong) increase the incentives for firms to colocate with other co-nationals. The colocation difference is further supported by studies of Hansen (1987), Head and Ries (1995), and Guimarães et al. (2000). When referring to plural nationalities of foreign owned firms present in the host country, we expect that foreign owned companies reveal different colocation patterns according to different home countries.

2.3.3. Colocations according to size

Another firm characteristic which may relate to colocation propensity is size. Large firms are seen as an important source of colocation benefits, amongst which the most important is knowledge spillovers (Feldman, 2003; Harrison et al., 2004a). As many researchers have noted large firms have the potential to provide significant agglomeration benefits to the colocated establishments (Collinson, 2000; Shaver & Flyer, 2000; Feldman, 2003; Gorman & Kautonen, 2004; Malmberg & Maskell, 2006; Piore & Sabel, 1984). Hatfield et al (2007) studied the propensity to colocate with dominant firms (defined as large, economically and technologically powerful firms that enter emerging markets from related markets) as well as the strategic ramifications of colocation with dominant firms; their study shows that both small and medium sized firms are similarly likely to colocate with dominant firms. Kim (1995) also reported positive correlations between colocation behavior and average firm size, as well as between colocation and the intensity of raw materials across U.S. manufacturing industries. Holmes and Stevens (2002) found that firms located in areas with higher industry colocation are on average larger than those located outside such areas, especially in the manufacturing industry. Holmes and Stevens (2002) extend Kim's findings by emphasizing that this positive relationship is robust and controls for firm size effects on concentration. In particular, large firms play an important role in the development of technical standards or dominant designs that are necessary for creating economic value. Due to the benefits that large firms can bring to the colocation areas, small and medium sized firms have a strong incentive to colocate with these generally dominant firms. Therefore, we expect that the colocation patterns of small foreign owned firms to be similar to those of large firms.

2.3.4. Colocations according to age

Firm's age can further deepen the insight into colocation patterns among foreign owned firms. The literature regarding the predisposition to colocate according to age is divided into two opposite streams. One literature stream supports the idea that no matter the age, both types of firms have significant benefits from colocations and that, due to these potential benefits, they will exhibit similar colocation patterns (Aldrich & Auster, 1986; Shaver, 1998; Shaver & Flyer, 2000; Stinchcombe, 1965). Another stream reports that young established foreign owned firms have more to gain from colocating than older, more established firms and, therefore, will exhibit different colocation patterns (Bhide, 2000;

Harrison et al., 2004b; Smith and Smith, 1998). Younger firms, due to weaker knowledge and resource base, would exhibit different colocation patterns than older foreign firms. Prime advantages from colocation for young established foreign owned firms would be an enhanced awareness of customer leads, increased exposure to potential customers, as well as knowledge sharing and spillovers (Javorcik, 2004). Through colocations the young ones are more likely to acquire intangible resources which they do not possess due to their liability of newness (Smith & Smith, 1998). Through colocations the younger firms will have instant access to an already developed customer perspective. By collocating with other firms they might enhance their ability to create and nurture partnerships which fill their resource voids (Christensen & Drejer, 2004; Chung & Kalnins, 2001).. Younger foreign owned firms also have to overcome the liability of foreignness, in particular in the development of legitimacy and trusting relationships with potential transaction partners (Harrison et al., 2004b). Older established firms, particularly those with substantial experience, size and resources, serve as colocation magnets for younger companies (Shaver & Flyer, 2000). Shaver and Flyer (2000) found that older, more established foreign firms in US industries indeed have a past tendency to locate away from agglomeration areas, but this tendency disappears in time due to an increase in the potential benefits brought by collocating. This finding suggests that firms are balancing their potential gains from knowledge sharing against the risks of knowledge leaking to other firms in the industry (Davidsson & Klofsten, 2003). Colocating with older firms may provide benefits to all firms, but will be especially attractive for the younger companies due to resource constraints and other survival challenges brought by their liability of newness (Shaver, 1998; Stinchcombe, 1965). We expect that the mutual benefits from collocating shared by all firms regardless of age increase the likelihood that young firms similarly colocate to older, more established ones; consequently, we expect similar colocation patterns among young and old established foreign owned firms in the host economy (Aldrich & Auster, 1986; Shaver, 1998; Shaver & Flyer, 2000).

2.4. Methodology

2.4.1. The Netherlands

It is generally assumed that the Netherlands is among those small economies that attract FDI due to their favorable geographic location. As the Netherlands was also among the countries initiating the European customs union in 1957, foreign owned firms located here have benefited from the process of increasing economic

and political integration from the early start. Strategically located within the EU and at the North Sea, MNEs frequently use their Dutch establishments to supply not only the (relatively small) Dutch market, but also other (European) markets. Being a small country that is part of a larger regional economic entity (EU) it is expected that many foreign owned firms located in this particular host country will serve a larger market with their products and services. Due to regional integration, MNEs can rationalize their European activities to exploit economies of scale and scope (Benito, Grogard & Narula, 2003; Hogenbirk & Kranenburg, 2006).

The Netherlands is the fifth largest outward investor in the world (UNCTAD, 2006), an extraordinary position for a small country. Although always a net-outward investor, the Netherlands also quickly recognized that incoming FDI could contribute to the economic well-being of the country, since FDI not only involves financial flows, but also transfers of materials, components, finished products, and intangible assets (Hogenbirk et al., 2009). Worldwide, the Netherlands is the sixth largest recipient of FDI (UNCTAD, 2006). Table 2.1 presents an overview of the top ten of largest foreign investors in The Netherlands.

Table 2.1: FDI Stock in the Netherlands by top ten countries, 2005 - Million EUR at year-end

No.	Country	Stock
1	United States	69.140
2	United Kingdom	57.085
3	Germany	44.526
4	Belgium	35.807
5	Luxembourg	28.203
6	France	26.102
7	Switzerland	16.655
8	Ireland	14.521
9	Japan	9.682
10	Spain	8.005
11	Other countries: Portugal, South-Africa, Canada, India, Norway, Denmark, Finland, Italy, Sweden, Austria etc.	155.000
Total		464.726

Source: DNB, 2006

The Netherlands consists of twelve provinces, namely Friesland, Groningen, Drenthe, Overijssel, Gelderland, Limburg, Noord-Brabant, Zeeland, Utrecht, Zuid-Holland, Noord-Holland, and Flevoland. Figure 2.1 presents the map of the Netherlands including the provinces and their main cities, and the neighboring countries.

Figure 2.1: Map of the Netherlands



The Dutch provinces differ from each other with respect to economic development, culture and history. Provinces Noord-Holland, Zuid-Holland, and Utrecht, together often labeled the 'Randstad', are regarded as being quite distinct from the other provinces. These three provinces are located close to the sea, they hold major business centers in the cities of Amsterdam, Rotterdam, Den Haag, and Utrecht; and encompass the main gateways of Schiphol Airport and the harbor of Rotterdam. Provinces Groningen, Drenthe, Overijssel, Gelderland, Limburg, Noord-Brabant, and Zeeland are provinces bordering Germany and Belgium. Additionally, Limburg borders both Belgium and Germany. The province Noord-Brabant is known for the technological knowledge and innovation potential, which is essential for resource-seeking foreign owned firms as shown by Biermans and Poort (2007). Furthermore, the Overijssel region has a large manufacturing base and excellent infrastructure enabling easy communication with major Eastern European markets.

2.4.2. Data sources and sample

This research uses several datasets namely the Dunn and Bradstreet dataset, Dutch Invest, De Nederlandse Bank (DNB), and the Statline from Central Bureau of Statistics (CBS). The DNB country-level dataset provides an overview on the inward FDI in the Netherlands and the origin of the inward investment per countries and regions worldwide. The Dunn and Bradstreet dataset and Dutch Invest dataset contain firm-level and detailed information on foreign owned firms doing business in the Netherlands: company specific information, number of employees, year of establishment, size, assets, financial reports, location, industry codes, organizational structure, mother company, subsidiary information (number, industry, location). The CBS dataset contains all firms in the Netherlands, without making a distinction between foreign owned and domestic firms and it allows us to select firms based on industry and region/province.

The databases use different industry classification systems, namely SIC 1987 (Standard Industrial Classification) and SBI 1993 (Standaard Bedrijfsindeling). Therefore, we had to synchronize the two classification systems in order to refer to the same type of firms (i.e. firms active in the same industry). The CBS database uses the SBI 1993 classification to distinguish between industries; SBI 1993 is referred to as the Dutch SIC system (Broersma & Gautier, 1997). The Dunn and Bradstreet and Dutch Invest datasets use the SIC 1987 classification system. It was necessary to verify which SIC 1987 classification codes correspond

to the SBI 1993 codes and to validly synchronize the databases (www.siccode.com). Therefore, in this research all industries under division A to J in the SIC 1987 system will be regarded similar to all firms in division D in the SBI 1993 system. From the Statline database, which contains all firms (both domestic and foreign) active in the Netherlands on the 1st of January 2008 we selected a total of 94625 domestic firms.

The research sample population consists of 12.632 economically active foreign owned firms in the Netherlands at the beginning of 2008. The data regards a foreign owned firm as a legally existing entity relating strategically to a parent company of foreign origin but existing independently as a juridical form. This entails that legal responsibilities and legal consequences are placed directly on the company itself. We excluded from the sample the companies which were out of business or non-marketable even though location information was present in the dataset. The foreign owned firm sample for this research consists of 11.614 small and medium sized and 1.018 large sized firms. We classify as being small and medium sized the firms with a number of employees up to 250 headcounts. Large firms employ more than 250 people (European Commission, 2010). Furthermore, our sample consists of 3970 young foreign owned firms and of 8662 older firms. The young foreign owned firms started their operations in the Netherlands in the last ten years and the old companies initiated their activities in the Netherlands more than ten years ago (Davidsson & Klofsten, 2003).

With regards to the origin of the foreign owned firms, 8.099 firms are owned by EU countries, and 4.533 firms are non-EU. We classified the foreign owned firms using the Standard Industrial Classification SIC code into the following industries: agriculture, forestry and fishing; mining; construction; manufacturing; transportation, communications, electric, gas, and sanitary services; trade; services; public administration. We excluded the public administration industry from the sample because only two units were active in this industry.

2.4.3. Method

To assess the distributions of firms, distribution tables and Chi-square tests were applied on the tables with the rows representing foreign and domestic owned firm counts and the columns representing each province. The tables can be analyzed by comparing the domestic- and foreign distributions over the provinces. For the complementary Chi-square tests, the null hypothesis, stating that the colocation patterns do not significantly differ from each other, was tested.

We also tested the interaction of two or multiple firm characteristics and their propensity to colocate in order to gain a more in-depth multi-dimension view over the similarity or dissimilarity in colocation blueprints. For this purpose, two-way and three-way factor tests were conducted.

To determine where domestic firms are located and which Dutch provinces foreign owned firms favor, the analysis will also focus on the difference in the number of foreign owned firms present in each [province], and the expected number of foreign owned firms if they would have followed the same distribution pattern as [domestic firms] (Shaver, 1998). To calculate which province do the foreign owned firms favor (FAVOR), we use the difference in the number of firms that are foreign owned in a province and the expected number if the foreign owned would have followed the same distribution patterns as the domestic ones. The expected number of foreign owned firms is calculated by multiplying the actual number of foreign firms per province with the shares of the total domestic firms per province. The variable was calculated in the following manner:

$$FAVOR_s = \sum_i (F_{i,s} - F^*_{i,s}),$$

$$\text{where } F^*_{i,s} = \frac{U_{i,s}}{U_i} (F_i).$$

$F_{i,s}$ is the number of foreign owned firms in industry i and province s ;

$U_{i,s}$ is the number of domestic firms in industry i and province s ;

F_i is the total number of foreign owned firms in industry i ;

U_i is the total number of domestic firms in industry i .

FAVORs indicates the extent to which foreign owned firms prefer to locate in a province relative to domestic firms. Positive values of FAVOR indicate provinces that foreign firms favor, and negative values highlight provinces that foreign owned firms disfavor.

In exploring the distribution across the regions and their relative importance, we use the location quotient: measure of the industry's concentration in an area relative to the rest of the nation. As the Netherlands the first two digits of the postal code indicate the same city or region, firms are considered to be colocating if they are located within the same first two digits of the postal code.

2.5. Empirical findings

2.5.1. Colocation patterns considering provinces favored

In order to provide an accurate analysis of the colocation patterns of foreign owned firms in the Netherlands, the first step is analyze the regional distribution of foreign owned firms as compared to domestic enterprises across the twelve provinces and industries. Table 2.2 shows the distribution of domestic and foreign owned firms per province and across industries. Domestic firms favor the provinces Noord-Brabant (18.89%), Zuid-Holland (16.23%), Noord-Holland (15.99%), and Gelderland (13.38%). Similar to the domestic firms' distribution, the provinces Noord-Brabant (20.19%), Zuid-Holland (17.23%), Noord-Holland (16.12%), and Gelderland (12.53%) are highly favored by foreign owned firms. We also conduct a chi-square test to determine if domestic and foreign firms favor the same provinces. The Chi-square test has a value of 27.00 and a p-value of 0.25 meaning that we cannot reject the null-hypothesis, therefore, the domestic and foreign owned firms favor the same provinces. When comparing the distribution pattern of both domestic and foreign owned firms, our results are consistent with the above, namely that the provinces favored by foreign owned firms are, to a large extent, similar to the ones favored by domestic firms except for two provinces, Limburg and Friesland. Different from the domestic firms' distribution, the province Limburg is highly favored by foreign owned firms and the province Friesland is less favored by foreign firms compared to domestic ones.

Table 2.2: Domestic and foreign owned firms shares per province and industry (D = Domestic; F = Foreign)

Industry	Agriculture, Forestry, Fishing		Mining		Construction		Manufacturing		Transportation, Communications, Electric, Gas		Trade		Services	
	D	F	D	F	D	F	D	F	D	F	D	F	D	F
Province/Shares	4.28	5.56	3.32	0.07	2.74	1.63	3.22	3.12	3.70	1.77	3.06	2.56	2.79	1.86
Groningen	7.29	2.78	5.17	0.07	4.52	0.82	4.91	2.01	4.84	1.57	4	2.42	3.20	1.45
Friesland	5	2.78	14.39	0.07	2.86	1.22	2.65	2.38	2.43	1.11	3.05	2.07	2.48	1.60
Drenthe	11.2	2.78	7.38	0	5.86	3.67	7.17	6.13	4.76	2.49	6.87	5.61	5.35	3.01
Overijssel	2.66	8.33	1.85	0	1.88	0.82	2.02	1.37	2.53	0.92	2.02	2.30	1.95	1.33
Flevoland	16.6	8.33	14.0	4.58	12.2	7.35	13.38	12.53	10.19	7.80	12.1	10.8	11.4	7.80
Gelderland	4.45	2.78	1.85	0	6.97	11.0	6.48	6.50	5.90	5.11	7	9.68	9.30	7.97
Utrecht	7.61	16.6	11.0	32.6	17.8	19.1	15.99	16.12	19.12	24.59	16.9	18.9	20.2	28.3
Noord-Holland	12.6	11.1	5.54	52.	20.5	26.9	16.23	17.23	24.54	29.70	19.9	20.5	20.5	24.3
Zuid-Holland	4.47	5.56	4.43	1.9	2.10	2.86	2.22	2.22	2.98	2.62	2.34	1.82	2.03	1.86
Zeeland	17.2	13.8	16.2	3.9	16.9	22.8	18.89	20.19	12.95	15.15	16.02	16.46	14.56	14.36
Noord-Brabant	6.52	19.4	15.1	2.6	5.51	1.63	6.84	10.20	6.06	7.15	6.56	6.79	6.16	6.09
Limburg	100	100	100	100	100	100	100	100	100	100	100	100	100	100
Total														

In order to objectify the above statistics we will determine which provinces are favored by foreign owned firms by comparing their colocation patterns with the location patterns of the domestic ones. To calculate which provinces are favored by the foreign firms we need to focus on the difference in the number of firms that foreign owned firms control in a [province], and the expected number of firms that foreign owned firms would have controlled if they followed the same distribution pattern as [domestic firms] (Shaver, 1998). Therefore, table 2.3 provides the actual number of foreign owned firms per province, the expected number of foreign firms per province if they would have followed the colocation pattern of the domestic ones, and the difference between these two numbers (actual – expected), implying favoring or disfavoring of the province considered.

Table 2.3: Favoring (F) and Disfavoring (D) of Provinces by foreign owned firms for each industry (Δ = difference in favor)

Industry	Agriculture, Forestry, Fishing		Mining		Construction		Manufacturing		Transportation, Communications, Electric, Gas		Trade		Services		Total
	Δ	F/D	Δ	F/D	Δ	F/D	Δ	F/D	Δ	F/D	Δ	F/D	Δ	F/D	
Province															F/D
Groningen	0	F/D	-4	D	-3	D	-2	D	-29	D	-39	D	-37	D	neg 144 D
Friesland	-2	D	-7	D	-9	D	-55	D	-50	D	-124	D	-70	D	neg 317 D
Drenthe	-1	D	21	D	-4	D	-5	D	-20	D	-77	D	-35	D	neg 163 D
Overijssel	-3	D	11	D	-5	D	-20	D	-35	D	-98	D	-93	D	neg 265 D
Flevoland	2	F	-3	D	-3	D	-12	D	-25	D	22	F	-25	D	neg 44 D
Gelderland	-6	D	14	D	-12	D	-15	D	-36	D	-99	D	147	D	neg 325 D
Utrecht	-1	D	-3	D	10	F	0	D/F	-12	D	210	F	-53	D	pos 151 F
Noord-Holland	3	F	33	F	3	F	2	F	83	F	149	F	323	F	pos 596 F
Zuid-Holland	-1	D	72	F	16	F	19	F	79	F	45	F	154	F	pos 385 F
Zeealand	0	F/D	-4	D	2	F	0	D/F	-5	D	-41	D	-7	D	neg 55 D
Noord-Brabant	-1	D	19	D	14	F	25	F	34	F	35	F	-8	D	pos 80 F
Limburg	5	F	19	D	-9	D	84	F	17	F	280	F	3	F	pos 361 F

The evidence shows that the provinces of Noord-Holland, Zuid-Holland, Noord-Brabant, Limburg and Utrecht are favored by foreign owned firms across all industries. Drenthe, Friesland, Gelderland, and Overijssel are not favored by foreign owned firms.

2.5.2. Colocation patterns considering foreign vs. domestic foreign owned firms

In order to see the colocation patterns of the foreign owned firms in the Netherlands we continue our analysis by investigating whether foreign owned firms exhibit the same colocation behavior as domestic ones. Hogenbirk (2002) found that domestic and foreign firms located dissimilarly in the Netherlands in 1997. Although this research is based on data from a decade later, we also expect that foreign owned firms colocate differently from their domestic counterparts, mostly based on their different characteristics, as emphasized by Shaver (1998).

In table 2.2 we noticed a high similarity among the distribution of domestic and foreign owned firms per province without considering the industry context. Provinces with a relatively high number of domestic firms, like Noord-Brabant (18.89%), Noord-Holland (15.99%) and Zuid-Holland (16.23%), also present high number of foreign owned firms (respectively 20.19%, 16.12%, and 17.23%). The same stands for provinces with relatively low domestic firm counts, like Flevoland, Drenthe, and Zeeland. It seems that, the share of domestic firms per province and the share of foreign owned firms per province are very much alike. We also conducted Chi-square tests to determine if the colocation pattern of foreign owned firms differs statistically from the colocation patterns of domestic firms for each industry. Table 2.4 presents the number of foreign owned firms, the values of Chi –square tests, and significance level of colocation patterns formed by foreign firms according to each industry.

Table 2.4: The total number of foreign owned firms and the results of the Chi-Square tests for the colocation patterns according to industries

Industry	Total	Chi share test Value	Asymp. Sig. (2-sided)
Agriculture, Forestry, and Fishing	36	23.33a	.016
Mining	152	201.79a	.000
Construction	245	42.27a	.000
Manufacturing	1892	72.00a	.232
Transportation, Communications, Electric, Gas, and Sanitary Services	1525	146.85a	.000
Trade	5820	211.86a	.000
Services	2962	321.68a	.000

Note: significance at 5% level

The evidence shows that the industrial colocation patterns do significantly differ across the twelve Dutch provinces (when considering industry). The results indicate that for the industries of mining, construction, transport and communications, services, and trade industry the null-hypothesis of identical colocation patterns is rejected. Therefore, across these industries the foreign owned firms exhibit a different colocation pattern than the domestic ones. For the agriculture, forestry and fishing industry and the manufacturing industry the null-hypothesis cannot be rejected. Thus the foreign owned and domestic firms operating in these industries have similar colocation patterns.

2.5.3. Colocation patterns considering foreign owned firms' characteristics

In order to deepen our insight into the colocation patterns of foreign owned firms we will consider firm characteristics, namely country of origin, size, age and industry and analyze colocation patterns according to these characteristics. Firstly, we investigate the propensity to colocate across provinces according to the nationality or country of origin of the foreign owned firms. Furthermore, we look at the distribution per each province according to the main investors (De Nederlandse Bank, 2009). Table 2.5 presents the distribution of foreign owned firms and the shares per province according to country of origin.

Table 2.5: Distribution of foreign owned firms shares per province according to country of origin

Province	Home country	USA	UK	Germany	Belgium	Luxemburg	France	Switzerland	Others
Limburg		9.00	12.6	10.73	14.75	6.28	7.40	9.09	10.02
Noord-Brabant		19.00	15.15	19.77	28.11	11.32	12.34	11.36	13.30
Zeeland		3.00	1.51	1.12	13.27	1.25	1.23	0.75	3.55
Gelderland		7.00	1.51	20.62	7.54	9.43	8.02	6.18	7.20
Utrecht		6.00	11.61	5.93	8.19	12.57	11.72	12.87	18.22
Zuid-Holland		10.00	12.12	4.80	6.55	19.49	17.28	24.24	17.05
Noord-Holland		17.00	20.20	10.73	8.11	20.12	18.51	26.51	10.20
Flevoland		11.00	3.03	2.54	3.27	3.77	4.93	0.75	3.00
Overijssel		8.00	14.14	14.12	6.55	8.17	17.28	11.36	8.10
Drenthe		3.10	3.03	3.38	1.96	3.14	3.08	3.00	1.10
Groningen		1.55	1.51	2.82	0.98	2.51	1.23	2.27	2.50
Friesland		0.77	3.53	3.38	0.65	1.88	1.23	2.27	5.76
Total		100	100	100	100	100	100	100	100

The evidence shows a high distribution of Belgium firms in the regions of Limburg, Noord-Brabant and Zeeland. By means of a Chi-square test, we analyze whether the location pattern of Belgium firms significantly differs from the overall foreign firms location patterns. Table 2.6 shows the chi-square results of the colocation patterns exhibited by foreign owned firms according to firm's characteristics.

Table 2.6: The results of the Chi-Square tests of colocation patterns according to firm's characteristics

Firm characteristic variable	Chi test Value	Asymp. Sig. (2-sided)
Foreign vs. domestic	27.00	.250
Belgium firms and location	140.00a	.000
German firms and location	146.00a	.000
Size	23.33a	.026
Age	31.82a	.026
Origin and industry	27.00a	.026
Origin and age	36.00a	.460
Size and location	23.33a	.026
Size and origin	23.00a	.250
Size and age	36.00a	.028
Size and industry	42.00a	.000
Age and industry	40.00a	.050
Origin/industry and size	32.00a	.036
Origin/size and industry	22.01a	.000
Age/size and industry	44.00a	.026

Note: a is significant at 5% level

The Chi-square value of 140.00 and the p-value of 0.00 (table 2.6) confirm that foreign owned firms coming from Belgium show different colocation pattern than other foreign firms. Moreover, foreign owned firms coming from Belgium colocate in the Dutch provinces bordering Belgium. The same results (table 2.5)

stand for the German owned firms which highly concentrate across the provinces bordering Germany namely: Limburg, Gelderland, and Overijssel. Empirical testing shows a Chi-square value of 146.00 and a p-value of 0.00 which implies that the null hypothesis is rejected and confirms that foreign owned firms coming from Germany exhibit a different colocation patterns than other foreign owned firms.

We also test how the interactions between various firm characteristics variables impact colocations. In order to observe the interaction of multiple firm characteristics and the effect on the propensity to collocate we performed two-way factors tests. When considering colocation patterns according to country of origin and industry, the Chi-square value of 27.00 and the p-value of 0.26 show that we cannot reject the null-hypothesis and that foreign owned firms coming from different countries do not show different industry colocation patterns.

Related to firm size, Rugman and Verbeke (2002) strengthen the idea that company size plays an important role in firms colocation choices and patterns. Table 2.7 presents an overview of the distribution of large and small and medium sized firms and the shares per province.

Table 2.7: Distribution of number of foreign owned firms (foreign owned firm) and shares per province according to size

Province	Total	Small & medium foreign firm (SM_foreign owned firm)	Share of SM_foreign owned firm	Large foreign owned firm	Share of large foreign owned firm
Limburg	1160	1033	89.08	127	10.91
Noord-Brabant	3389	2688	79.33	701	20.66
Zeeland	207	174	83.87	33	16.12
Gelderland	1142	968	84.79	174	15.20
Utrecht	981	808	82.31	173	17.68
Zuid-Holland	1495	1228	82.14	267	17.85
Noord-Holland	1862	1575	84.58	287	15.41
Flevoland	468	341	72.85	127	27.14
Overijssel	1070	949	88.75	121	11.25
Drenthe	348	267	76.92	81	23.07
Groningen	256	222	86.84	34	13.56
Friesland	254	221	86.84	33	13.15
Total	12632	10474	82.92	2158	17.08

The evidence shows the existence of a similar regional distribution of foreign owned firms regardless of size across all twelve provinces. We also conducted the Chi-square test to determine if the colocation patterns of large, small and medium sized foreign owned firms are the same statistically for the provinces. The Chi-square test (see table 2.6) has a value of 23.33, and a p-value of 0.26 meaning that we cannot reject the null-hypothesis.

When investigating colocation patterns according to size and country of origin, the Chi-square value of 23.00 and the p-value of 0.25 also show that we cannot reject the null-hypothesis. Thus, there is an equal distribution of both large and

small and medium foreign owned firms regardless of country of origin.

Regarding colocations according to size and industry the results show a significant difference among colocation patterns. The statistical test has a value of 42.00, and a p-value of 0.00 which means that the null-hypothesis of similar colocation patterns is rejected. The colocation patterns of small and medium sized foreign owned firms significantly differ from the ones of large firms across industries. Large foreign owned firms are targeting two main industries in the Netherlands namely trade (wholesale and retail) and manufacturing.

The analysis of colocation patterns with respect to age of firms reveals that there are 3970 (31.43%) foreign owned firms which operate for less than ten years in the Netherlands, and 8662 (68.57%) foreign firms launched their activities in this host setting more than ten years ago. Table 2.8 shows the regional distribution in the Netherlands of both young and older foreign owned firms.

Table 2.8: Number of foreign owned firms and shares per province according to years of establishment in the Netherlands

Province	New Firms (≤ 10 years)	Share of Young Firms (%)	Old Firms (≥ 10 years)	Share of Old Firms (%)
Denthe	56	1.41	130	1.52
Flevoland	75	1.89	116	1.34
Friesland	54	1.35	143	1.65
Gelderland	314	7.90	739	8.54
Groningen	88	2.22	177	2.05
Limburg	229	5.75	513	5.94
Noord- Brabant	518	13.03	1261	14.55
Noord- Holland	1195	30.09	2479	28.61
Overijssel	142	3.58	362	4.19
Utrecht	340	8.55	727	8.40
Zeeland	64	1.60	134	1.57
Zuid- Holland	899	22.63	1874	21.64
Total	3974	100	8658	100

A high number of young foreign owned firms are present in provinces Noord-Holland (30.09%), Zuid-Holland (22.63%) and Noord-Brabant (13.03%); whereas for older, more established foreign owned firms these regions are also most popular, respectively 28.61%, 21.64%, and 14.55% of the old firms located in these provinces. Younger established foreign owned firms exhibit low presence in Friesland (1.35%), Drenthe (1.41%), Zeeland (1.60%), and Flevoland (1.89%), whereas old foreign owned firms similarly show low counts for these provinces (respectively 1.65%; 1.52%; 1.57%; and 1.34%).

The Chi-square test statistics show a value of 31.82, with eleven degrees of freedom and a p-value of 0.26 (see table 2.6). This implies that the null-hypothesis of identical colocation patterns cannot be rejected. Consequently, the colocation patterns of young firms versus old, more established foreign owned companies do not significantly differ. Thus, empirical results confirm our initial expectation that both young and older established foreign owned firms exhibit similar colocation patterns.

The same result is shown by the two-way factor test of country of origin and age, namely the interaction of these two firm characteristics shows no dissimilarity in colocation patterns. The Chi-square value of 36.00 and p-value of 0.46 reject the possibility of any dissimilarity in the colocation patterns among old vs. younger foreign owned firms coming from different countries of origin. Furthermore, when analyzing colocation patterns according to interactions of age and size of foreign owned firms, the Chi-square value of 36.00 and the p-value of 0.28 show that we also cannot reject the null-hypothesis. Accordingly, the colocation patterns of young vs. old established foreign owned firms given their size are similar. The same result stands for the interplay between age and industry of foreign owned firms; there are no dissimilar colocation patterns among foreign owned firms taking into consideration the Chi-square value of 40.00 and p-value of 0.50.

The inter-relationships between multiple firm characteristics and colocation patterns or agglomeration behavior were analyzed by three way factor Chi-square tests (see table 2.6). The Chi square test values show no inter-relationship between the different firm characteristics to explain differences in colocation patterns, except for the interaction between firm size, industry and origin (foreign vs. domestic). The Chi-square value of 22.01 and p-value of 0.00 reveal that in the trade industry, large foreign owned firms follow the same colocation pattern as large domestic firms.

2.6. Discussion

Many studies focus on the advantages of being geographically colocated and on the development of geographically concentrated areas within large countries (Saxenian, 1994; Porter, 1998) especially for firms engaged in innovative activities (Pouder and St. John, 1996; Klepper and Simons, 2000; Tallman et al., 2004). However, in small open economies the agglomerative benefits remain unclear (Malmberg and Maskell, 2002; Pinch et al., 2003). A better understanding of firms' location choices, as well as the strategic impact of these choices, can help advance theories of entrepreneurship, agglomeration, industrial development, and international business (Branderburger & Nalebuff, 1997). In this study we investigate, in the context of small open economy the colocation patterns of foreign owned firms according to various firm characteristics. To commence the understanding of these patterns we explored the agglomeration behavior of the foreign vs. the domestic firms. Thereafter, we examined the propensity to colocate among foreign owned firms with different characteristics such as country of origin, size, age, and industry.

Our empirical results show that foreign owned firms exhibit different regional colocation patterns than domestic firms for the following industries: mining, construction, transport and communications, services and trade industry. These findings are consistent with Head et al. (1995), Shearmur & Coffey (2002) and Hogenbirk (2002). The dissimilar colocation patterns can be explained by the differences among foreign and domestic firms concerning their technological and customer base. The existence of agglomeration economies among foreign owned firms can be another reason for these different patterns, explicitly foreign owned firms might be motivated to colocate around foreign agglomerations (Britton, 2003; Simmie, 1998). Moreover, changes in agglomeration benefits over time could trigger foreign owned firms to exhibit a different agglomeration behavior than domestic firms (Head et al., 1995). Overarching, Shaver (1998) also argues that there might exist agglomeration economies among foreign owned firms regardless of where domestic counterparts are located.

Empirical findings also illustrate similar colocation patterns between foreign and domestic firms operating in the following industries: agriculture, forestry and fishing, and manufacturing. These findings are in line with Head et al. (1995), Mariotti and Piscitello (1995), Marshall (1890) and Shaver (1998). A first justification for the similarity in location behavior relates to knowledge spillovers between competitors in the same industry which attract them to the same region (Scott, 1988). When manufacturing costs, taxation and location attractiveness

differ across regions, foreign owned firms have the tendency to agglomerate where costs are lower (Waddell et al., 2003). Foreign manufacturing firms might favor colocations around easy access to imports (Krugman, 1991). However, in the Netherlands government policy and taxation are very similar across the twelve Dutch provinces. This explains the similar location tendencies in the regional distribution of foreign owned and domestic firms operating in the above mentioned industries. The effects of agglomeration economies, respectively pools of specialized labor and suppliers, knowledge flows, innovation and spillovers can lead to both foreign and domestic firms colocating in same areas (Autant-Bernard, 2000; Audretsch & Feldman, 2004; Chung & Kalnins, 2001; Jaffe et al., 1993). In the context of foreign entry, when domestic industry agglomerations already exist, foreign owned firms are often motivated to colocate around the same regions where industry is already concentrated (Luo, 1999). In the trade industry, large foreign owned firms follow the same colocation pattern as large local firms. Foreign firms within the trade industry are colocated according to local patterns which concentrate them in the regions with access to gateways to much bigger markets (Hogenbirk, 2002).

Foreign owned firms mainly agglomerate in provinces with high concentration of production factors, good infrastructure, and the presence of the main gateways, Rotterdam Harbor and Amsterdam Schiphol. Particularly, they target provinces of Noord-Brabant (20.19%), Zuid-Holland (17.23%), Noord-Holland (16.12%), and Gelderland (12.53%). The region of Noord-Brabant is also known for its technological knowledge and innovation potential, which are essential to foreign owned firms employing resource-seeking motives as shown by Biermans and Poort (2007).

With regard to agglomeration blueprints according to home country our initial expectation is sustained. Foreign owned firms coming from Belgium and the ones coming from Germany show dissimilar colocation patterns than firms coming from other home countries, results consistent with Shaver's findings (1998). The main arguments for explaining the differences in colocation decisions according to nationality are associated with agglomeration economies: linkages, knowledge, technological spillovers and the access to shared pools of resources (Krugman, 1991; Rafii, 1995; Glückler, 2007). We can also argue that the degree of externalities is contingent upon the composition of regional networks according to nationality.

In the view of firms' age, the colocation patterns of young foreign owned firms are similar to the ones exhibited by older, more established firms. Our results

are consistent with Shaver and Flyer's findings (2000) and are sustained by the fact that agglomeration benefits are mutually attractive for both old and young foreign owned firms. Young foreign owned firms colocate around the geographic clusters or concentrations of older, well established firms, as predicted by other theorists as well (Stinchcombe, 1965). Location in proximity to dominant firms offers advantages to all enterprises, but it remains particularly attractive to younger ones due to resource constraints and liability of foreignness in the host economy (Britton, 2003; Luo, 1999). This increases the likelihood of younger firms seeking to colocate similarly to older, more established firms, as our results show and as other theorists also sustain (Aldrich & Auster, 1986; Shaver, 1998; Shaver & Flyer, 2000).

2.7. Conclusions and implications

Our study enhances the existing theoretical body of agglomeration economies by investigating the colocation patterns or blueprints from a multi-dimensional view of firm characteristics. We examine how the interactions of firm characteristics relate to the propensity to locate and how different types of firms can exhibit similar or dissimilar colocation blueprints. The evidence is coming from a small open industrialized country, the Netherlands which is part of a larger regional entity, the European Union. Our endeavor highlights that various firm characteristics or types of firms derive levels of network externalities that vary according to firm boundaries, country of origin, age, size and industry affiliation. Empirical results illustrate the importance of firms' heterogeneity in determining colocation decisions with respect to whether the firm should agglomerate and with whom. We contribute to the premise expansion regarding agglomeration economies, regional and industry cluster research by identifying the colocation areas and behavior of various types of foreign owned firms in the small open economy of the Netherlands. Our results represent the first step in identifying potential regional clusters within the Netherlands. By further analyzing formal and informal interdependencies and information transfer across the firms and institutions within the colocation areas, regional clusters can be identified. The results obtained also help us understand the likely future direction in regional cluster development in a small open economy. The economic force created by agglomeration economies is a prerequisite for the locational development.

The Netherlands, as well as other small open economies, aims to attract FDI due to the benefits it yields (McCann & Mudambi, 2004), i.e. economic development, employment, innovation, and an increase in the overall development of host-

countries (Netherlands Foreign Investment Agency, 2009; Hogenbirk, 2002). Therefore, policy makers are increasingly interested in examining MNEs' location choices and agglomeration patterns (Crone, 2000; Erken, Kleijn, & Lantzendörffer, 2004), where their efforts in attracting foreign investments often result in high inward flows of FDI. We suggest that regional policies may have a different impact on large compared to small and mediums sized firms, which behave differently across industries. Therefore, FDI promotion policies should target foreign investors at the level of industries and firms to meet their specific locational needs at the activity and cluster level, in light of a country's development priorities. A critical element or target approach of such investment promotion policies is to increase the attractiveness of particular locations or regions for potential investors in specific activities. However, such a targeted approach, known as the development of geographic 'brand names' is difficult, it takes time and it also requires fairly sophisticated institutional capacities.

Provinces that are disfavored by the foreign owned firms should develop policies to attract more domestic firms for the specific industries where they exhibit similar colocation patterns with the foreign ones. However, when striving to increase the level of FDI in relatively unpopular regions, to achieve and sustain regional economical growth (Anderson, 1994), we suggest policies focusing the efforts on firms from particular countries. The colocation templates identified in this study are potential candidates for creating competitive clusters in different regions. In addition, a policy which increases the share of industry density in peripheral regions will drive the largest and most productive firms to move to the core. Such model of 'sorting of firms' may explain why the same policies have a different impact on regional welfare across different areas (Baldwin & Okubo, 2006).

A number of further lines of research deserve attention in future work. Using more straightforward and detailed data on both domestic and foreign companies including entry modes, reason for investment, network participation would strengthen in insight onto the colocation behavior across different groups of firms. An interesting avenue would be to study external factors, such as agglomeration, labor, infrastructure, and geography, and to examine the causality to colocation blueprints of these external factors along with the firm internal characteristics. Future research could also address dynamics matters by looking at evolving colocation patterns over time or, further longitudinal research. Additional research into the development and impact of agglomeration economies in emerging industries could also prove interesting for enhancing the literature framework as well as policy development. Studying the impact of colocation phenomenon on learning would also enrich the literature stream.

CHAPTER 3

ADVANCING THE NONMARKET ENVIRONMENT: A REVIEW OF THE LITERATURE

The purpose of this chapter is to offer an extensive literature overview of the theoretical cornerstones regarding the nonmarket environment. The aim of this review is to provide insight into the development of the nonmarket research agenda which provided incentives for conducting the current study. Therefore, we firstly present the main perspectives or streams that constituted the genesis of the nonmarket field. Thereafter, we employ these perspectives to characterize the nonmarket environment along the structural lines of its components, institutions, issues, interests, and information and the way foreign owned firms can manage the nonmarket matters given by these components.

3.1. Genesis perspectives of the nonmarket field

The nonmarket field was addressed by Baron (1995); Boddewyn (2003); Hillman (2004); Marcus, Kaufman, and Beam (1987); Preston and Post (1975); Yoffie (1987) and others. Particularly, since the publication of 'The Great Transformation' (Polanyi, 1957), the concepts of 'non-economic' and 'nonmarket' successively started to emerge as referring to the internal and external factors that assist markets, firms and other types of institutions and organizations to function efficiently and effectively as well as repair their failures. The versatility of the nonmarket concept encouraged Boddewyn (2003) to perform an extensive literature research from various fields of study which provide links to the concept. He summarizes four main perspectives which provide an adequate overture for this topic.

The first perspective of the nonmarket concept is rooted in **neoclassical economics**. According to this perspective, nonmarket forces regulate exchanges between economic actors outside the market system. Neoclassical economics

focused on the determination of prices, outputs, and income distributions in markets by means of supply and demand. According to this perspective market institutions and firms were hereby separated from nonmarket institutions and the relationship between firms and markets was explained by either exogenizing nonmarket factors or by neutralizing their effects altogether (Boddeyn, 2003). Along this line, nonmarket factors are exogenous from economic models, assuming that market games are played in isolation from nonmarket factors. Analyzed from a transaction cost economics perspective, higher hierarchies (i.e. institutions) complement or often intervene where market mechanisms fail to manage transactions within or between organizations (Williamson, 1996). Such higher hierarchies or institutions entail a given set of political, social and legal factors which complement economic exchanges. However, neoclassical economics still largely ignored other noneconomic exchanges beyond those of hierarchical functions of institutions. Thus, this first perspective acknowledged the existence of nonmarket effects but considered them as separated and neutral to the market mechanisms and firms. For this reason, a main line of criticism of this perspective is that it is deficient to consider the implications of political, social, and legal factors on market mechanisms or economic activity.

A second perspective on the nonmarket environment is embedded in **organization theory**. This stream commenced to regard nonmarket matters as various factors which do permeate economic exchanges of individual firms, as well as intra-organizational and inter-organizational. While the neoclassical inference (first perspective) considered nonmarket issues separated and neutral from market matters, organizational theory perspective regards nonmarket mechanisms as cooperating with market endeavors. This cooperation assumes a socialized or bounded rationality instead of the simplicity of market determined issues assumed by neo-classics. Organization theory presumes that there are issues regarding exchanges that cannot be completely foreseen or regulated by market mechanisms or transaction costs economics which are rationally bounded. This led to the need for nonmarket exchange mechanisms, around two elements (Boddeyn, 2003). Firstly, nonmarket exchange mechanisms became necessary for improving the efficiency of market exchange mechanisms as these are plagued by information asymmetry, property rights, bargaining and other problems. Economists regarded inefficiency caused by these problems as market failure in the transaction cost economics: market versus hierarchy (institutions) dilemma (Williamson, 1996). This constituted the crucial moment for nonmarket appearance, when the problems of market exchange mechanisms were prevented or resolved by means of (social) institutions or hierarchies, which allow many exchanges to take place despite these potential problems. Such nonmarket

institutions have a regulatory purpose as they provide rules, norms and customs which allow firms to cope with uncertainty, interdependence or transactions failure (Barron et al., 1994). Forwarding that nonmarket institutions have the explicit purpose of regulating transactions and solving market failures, the (organization theory) field raised the awareness that social behavior is also involved in market exchanges under the forms of trust, commitment and opportunistic behavior (Williamson, 1996) which influence the behavior of firms in economic exchange and networking. For this reason, normative rules are necessary to limit inefficiencies and injustices caused by bounded rationality and opportunistic behavior within market exchanges. Hereby nonmarket institutions or mechanisms with a social purpose (like non-governmental organizations) started to play a key role as potential remedies in market exchanges failure. Where market mechanisms (competition, price, contracts) fail, nonmarket matters (mainly institutions) serve to remedy market failure and to act as a higher hierarchy (party control) for conflict resolution in market exchanges. This perspective complements neoclassical economics perspective and it gradually builds the role or function of nonmarket matters. However, the main critique of this perspective is that it neglects to consider social aspects involvement in market activities or exchanges, and it overlooks the informal and formal aspects of economic activity or market mechanisms. Another point of criticism on this second nonmarket viewpoint is the utilization of economic and sociological terms which is far from consistent in the literature related to this perspective, leading to treacherous analogies (Boddewyn, 2003).

Apart from the nonmarket mechanisms found in organization theoretical approaches, **political mechanisms** complements the field by discussing ‘voice’ mechanisms, referring to politics (Hirschman, 1970). ‘Voice’ entails protest, opposition and mobilizing public opinion so that an improvement or desired reform can be achieved (Hirschman, 1970). Through voice organizations can also force a management change by mobilizing public opinion as an alternative way to market failure (Boddewyn, 2003). As a result, this perspective heavily relies on Hirschman (1970) and it adds to the organization theory stream which considers hierarchies as solving market failures. In this case organizations used ‘voice’ mechanisms to appeal to higher hierarchies or institutions. For political scientists (e.g. Hirschman, 1970), nonmarket refers to the power-based correctives – primarily political ‘voice’ – used to improve all organizations when competition fails to repair market mechanisms. Within any economic, political, social or cultural system, all individuals and organizations are permanently subject to lapses from efficient, rational, law-abiding, virtuous or otherwise functional behavior. Due to these lapses, society’s welfare is affected. Society’s welfare would be

optimized only when all organizations (mainly market) compete among themselves. However, inefficient or ineffective organizations may remain insensitive to competition because they can tap other resources (organizational slack, public funding, reciprocity, nationalistic preferences, etc.) to survive market failure. That is why, if competition does not lead to the 'exit' of inefficient or ineffective organizations, then political 'voice' (petitioning, mobilizing opinion, protesting) is needed to change objectionable states of affairs. Therefore, in this perspective nonmarket is related to the use of power - rights to exert influence over others who deploy the same rights to resist such attempts. Nonmarket 'voice' repairs market failure or inefficient market mechanisms and political mechanisms complement the nonmarket environment as related to power. The coercive use of power by political institutions strongly differs from the nonmarket concept in the previous perspective, where it is regarded as cooperative and normative mechanisms used by institutions capable of resolving conflicts (regulatory institutions) (Hirschman, 1970).

Apart from the nonmarket mechanisms found in political approaches, a perspective from **sociology** complements the field as it starts reasoning from the point of view of societies. According to functional sociologists like Parsons and Smelser (1956), economical factors, normative rules, and voice mechanisms are not enough for societies to survive. For survival in addition societies need social integration, social institutions, collective interests and motivating values. Modern societies chose to separate what came to be labeled 'economy' from other subsystems, and they adopted a 'market' way of running it. Nonmarket aspects are regarded as often conflicting with interdependent market ones. From this perspective nonmarket institutions were regarded as generating wealth, power, solidarity, and social order (Parsons & Smelser, 1956; Edwards & Fowley, 1998). Social institutions were regarded as rules and regulations insuring social welfare and buffering the society from possible consequences of market failures.

Sociologists use the term social institutions to refer to complex social forms that reproduce themselves such as governments, the family, human languages, universities, hospitals, business corporations, and legal systems. A typical definition is that proffered by Jonathan Turner (Turner 1997: 6): "a complex of positions, roles, norms and values lodged in particular types of social structures and organizing relatively stable patterns of human activity with respect to fundamental problems in producing life-sustaining resources, in reproducing individuals, and in sustaining viable societal structures within a given environment." However, Anthony Giddens says 'Institutions by definition are the more enduring features of social life' (Giddens 1984: 24). The contemporary

philosopher of social science, Rom Harre follows the theoretical sociologists in offering this kind of definition: 'An institution was defined as an interlocking double-structure of persons-as-role-holders or office-bearers and the like, and of social practices involving both expressive and practical aims and outcomes' (Harre 1979: 98). He gives as examples schools, shops, post offices, police forces, asylums and the British monarchy. Due to the variety that can be considered in this category, social institutions also need to be distinguished from more complex and more complete social entities, such as societies or cultures, of which any given institution is typically a constitutive element. A society, for example, is more complete than an institution since a society - at least as traditionally understood - is more or less self-sufficient in terms of human resources, whereas an institution is not. As most comprehensive and accurate manner, the current thesis regards social institutions as 'establishments of relative permanence of a distinctly social sort' characterized by essential elements as: a set of mores or rules (consistency) fulfilled by peoples acting collectively, in established complementary capacities or offices (concert) (Hughes, 1939: 297). The main social institutions considered in this thesis are organizations such as interest groups and the media (Scott 2001).

In summary, for political economists (Baron, 1995; Kindleberger, 1970), social-systems theorists (Parsons & Smelser, 1956) and some political scientists (Hirschman, 1970), society is made up of subsystems – economic, political, social and cultural – each one having its own set of institutions. The economic subsystem is mainly enacted through market institutions and organizations (firms). In this context, nonmarket refers to exogenous non-economic subsystems, institutions and organizations – political, social and cultural – and to their distinct functions, issues and interactions with market ones. The above perspectives present the nonmarket concept from different stances and simultaneously complement each other by gradually building the complexity of aspects involved by this concept. Based on these four perspectives, Boddewyn (2003, p. 299) also proposed the following general definition: 'Nonmarket refers to internal and external organizing and correcting factors that provide order to market and other types of institutions and organizations so that they may function efficiently and effectively as well as repair their failures.' We will use this definition for the following chapters of the dissertation.

3.2. The nonmarket environment: expanding institutions, issues, interests, and information

After discussing the four generic perspectives of the nonmarket field, we would like to elaborate on the components of the nonmarket environment. We make use as starting point Baron's (1995) framework because it offers a rich way of analyzing the nonmarket environment as he characterizes this environment in terms of institutions, issues, interests, and information. In the following sections we will use Baron's (1995) classification into the four I's to describe and clarify what institutions, issues, interests, and information entail and how they interrelate on the nonmarket environment. Our purpose is to thoroughly explain and clarify the components of the nonmarket environment as well as how firms can manage this environment. It is important to give a contour to the components of the nonmarket environment before we tap into ways to manage these components. Firstly, it has to be clear what firms need to manage before we discuss how to manage.

3.2.1. Institutions

Institutions represent specific designed constraints that structure political, economic, and social interactions and exchanges. Such constraints may be both informal – sanctions, taboos, customs, traditions, and codes of conduct, and formal – constitutions, laws, property rights (North, 1991). While the market institutions are well defined by literature, the nonmarket institutions remain ambiguous. The nonmarket institutions comprise of social, political, and legal arrangements which structure the firms' interactions outside of, and, in conjunction with markets (Baron, 1995). Together with market mechanisms, nonmarket constraints create order and reduce uncertainty in exchanges. The apprehensions of nonmarket institutions complement the market arrangements but they are additionally concerned with collective interests and core values that go beyond pure market objectives. These institutions outline the “rules of the game” that determine the economic and non-economic behavior of firms (Polanyi, 1957). Nonmarket institutions connect market and nonmarket exchanges and help shape the direction of economic exchanges. Organization theory argued that since market exchange mechanisms are plagued by information asymmetry, property rights, bargaining, bounded rationality and other problems, nonmarket institutions with a regulatory purpose (rules, norms and customs) will allow firms to cope with uncertainty and interdependence (Barron et al., 1994). These institutions regulate and solve market failures and outline the rules of the game through various rules and regulations (Williamson, 1996).

Depending on the kind of issues they tackle, various institutions emerged: regulatory/ legal institutions (based on neoclassical economics and organization theory perspectives), political institutions (based on perspective political mechanisms), and social institutions (based on sociological perspective). Regulatory institutions are public establishments exercising autonomous authority over specific areas of activity with a regulatory or supervisory capacity (Scott, 1995). They cover areas of administrative law, regulation and rulemaking (codifying and enforcing rules and regulations and imposing supervision or oversight). Under the category of regulatory institutions we find the main types: national regulatory institutions/ agencies, supranational regulators, and standards agencies.

Furthermore, political institutions were built up formerly in the 1960s and they dared the economic literature through the truism that government institutions adopt and implement public policies for the public interest (Stigler, 1971). Political institutions are portrayed by imperfect information, subjective models and high transaction costs. The firms interacting with political institutions have an imperfect grasp or knowledge of the issues affecting them (North, 1990). Firms can interact with political institutions, face the political arena and even influence the policy makers' decisions through nonmarket strategies (Buchanan & Tullock, 1962). The inference is that through nonmarket strategies implemented to manage interactions with political institutions, firms can influence the policy makers' decisions.

However, sociological perspective outlined other types of nonmarket institutions necessary for providing social order, namely social institutions that generate wealth, power, solidarity and respect (Parsons & Smelser, 1956; Edwards & Fowley, 1998). Accordingly, the main social institutions regard interest groups, non-governmental organizations and the media. Organized interest groups and the media can influence firms and manipulate politicians' policies in order to maximize their electoral prospects through financial or information resources, which can, thus, influence electoral outcomes (Aranson, 1990).

Firms get involved with these institutions when they can significantly affect their business (Masters & Keim, 1985). Just as in the economic market where industry attractiveness is fundamental for justifying the entry of firms into various markets, firms will engage with nonmarket institutions when nonmarket issues will affect their activities (Porter, 1980). The various nonmarket issues bridging the relationship between nonmarket institutions and firms are developed in the next section.

3.2.2. Issues

The issues specific to the nonmarket environment are the matters targeted or amended by the nonmarket institutions and firms (Baron, 1995). Nonmarket issues greatly differ from the market issues as they have a collective concern and regard various societal sub-systems (Parsons & Smelser, 1956). Nonmarket issues represent a controversial inconsistency based on one or more expectational gaps involving management perceptions of changing legitimacy and changing positions among stakeholders that occur within and between views of what is and/or what ought to be firm's performance. Issues imply an actual or anticipated resolution that creates significant, identifiable present or future impact on the organization (Wartick & Mahon, 1994). Thus, without a present or future possible impact on the organization, there is no issue. Both companies and institutions can identify, evaluate, and respond to nonmarket issues, namely social, political, and legal issues which may impact significantly their functioning (Wartick & Mahon, 1994). Nonmarket issues can challenge the legitimacy of both firms and institutions on the nonmarket environment, by creating a gap between the activities of firms and societal or institutional expectations caused by business actions or changing expectations (Sethi, 1979). Nonmarket issues arise from what is and what ought to be the liaison between business activities and institutional or societal perceptions (Wartick & Mahon, 1994).

To better understand the concept of nonmarket issues we further explain the issue life cycle. Following Post (1978) we describe a four stage issues life cycle. Nonmarket issues initially arise when 'a gap develops between the actual performance of a corporation and public expectations about what performance should be' (Post, 1978, p. 23). This first stage regards the public or more concerned interest groups who first become aware of a problem with the firm's performance and then develop the expectation that the performance should change (gap). The second stage, political controversy, commences when the expectations become politicized. The interest groups attempt to generate political interest in the issue. The next two stages, legislative and litigation steps, mark the movement of an issue into the regulatory arena for promulgation and implementation of regulation. A similar model is presented by Buchholz (1988); accordingly, issues move from public opinion formation to public policy implementation. Depending on the life cycle organizations can lose considerable decision making discretion if the issue becomes politicized and legislation is crafted and enforced. Responding to an issue according to its life cycle (further relates to the issue saliency) is vital for the success of organizations in resolving that issue.

Saliency is the importance of a certain issue to a broad segment of involved parties whose opinions are coalescing around one or two policy options (Bonardi, & Keim, 2005). Scholars have identified the saliency of a certain issue on which the firm is trying to compete as a key determinant of the corporate political strategy success (Hillman & Hitt, 1999; Keim & Zeithaml, 1986; Yoffie, 1987). We argue that saliency is not only a key determinant for the success of political strategies but for the success of nonmarket strategies also. Saliency is mainly explained by the interactions between its creators: information cascades and reputation cascades. Information cascades happen when individuals (followers) choose to follow others in their behavior after having observed their actions and ignore the personal information which they possess because they believe that the others are more knowledgeable. This process is also known as 'rational ignorance' (Bikhchandani, Hirshleifer, & Welch, 1992). Reputation cascades relate to individuals who view themselves as specialists on a subject, such as reporters and experts (Kuran, 1989). Information and reputation cascades offer explanations on how these different groups of individuals can create widely salient issues in the nonmarket arena. In the case of reputation cascades actors do not decide to adopt a certain attitude or decision based on others out of ignorance, but as a way to maintain a certain status, to improve their reputation and avoid disapproval (Bonardi & Keim, 2005). When firms choose to follow up on reputation cascades on their nonmarket approach they should consider: the benefits prone to be obtained, the punishments (losses) associated with a chosen preference and the place of keeping a truthful self-expression within firm's identity (adapted from Kuran, 1989).

Furthermore, regarding the issue life cycle the element of uncertainty also plays an important role in the nonmarket issue development. Uncertainty refers to the unpredictability of environmental variables which impact corporate strategy and performance (Miles & Snow, 1978; Pfeffer & Salancik, 1978) or the inadequacy of information about these variables (Duncan, 1978). The emphasis in the literature falls on particular uncertainties rather than on the treatment of uncertainty (Miller, 1991). We put forward that nonmarket issues regard various uncertainties of the nonmarket environment as related to political uncertainty, government policy uncertainty, regulatory uncertainty, and social uncertainty. Political uncertainty entails the rate of major changes in political regimes and it mirrors the threats and opportunities associated with potential and actual changes in the political arena (Ting, 1988). Policy uncertainty entails the instability in government policies that have an impact on business communities (Ting, 1988). Some authors view political and governmental policy uncertainty together as political risk which encompasses both types of uncertainty (Bunn & Mustafaoglu,

1978; Brewer, 1983; Kobrin, 1982). Regulatory uncertainty is given by the pace of changes of the regulatory game, the consistency and overall integration with other societal sub-systems of the regulatory game (Keim & Baysinger, 1988). Social uncertainty regards the instability of the welfare system and the extent to which nonmarket institutions set up the rules of the game bridging organizations and social welfare issues (Ades & DiTella, 1999; Congleton, 1984; Bigelow et al., 1993).

With the potential of affecting the life cycle of nonmarket issue we also find the abuse of power from both institutional and organizational perspectives which can be discussed through two main dimensions: pervasiveness and arbitrariness (Rosenzweig & Singh, 1991). These two key dimensions are independent and they confine different facets characteristic to the abuse of power. Pervasiveness is defined as the average firm's likelihood of encountering abuse of power in its normal interactions (Bardhan, 1997; Tanzi, 1998; Treisman, 2000). Pervasiveness relates to the expected degree to which abuse of power is a regular and significant part of economic and non-economic activity (Rogriguez, Uhlenbruck, & Eden, 2005). It affects organizations because it creates opportunities of internalizing environmental threats through absorption (Ring et al., 1990) or of purchasing facilitating services and favorable regulatory decisions (Boddeyn & Brewer, 1994). Both firms and institutions can make abuse of their power. According to organization theory firms can abuse their market power and form various cartels, trusts, and associations which harms or have implications for both social welfare and the activities of other firms. Furthermore, firms are also affected by the abuse of power of other firms in the form of cartels/ trusts due to contrived deterrence or artificial/ unnatural entry barriers (Scherer, 1980).

Arbitrariness, another facet regarding the abuse of power, is defined as the inherent degree of ambiguity associated with corrupt transactions in a given nation or state (Rogriguez, Uhlenbruck, & Eden, 2005). In simple words, arbitrariness relates to the various degrees of uncertainty faced by organizations and associated with abuse of power. Arbitrariness makes formal and informal rules and regulations subject to whimsical and varied interpretation (Ahlstrom & Bruton, 2001) and overlapping and feeble jurisdictions lead to ineffectual bribes (Oldenburg, 1987). Institutional theory focuses on contextual factors and nonmarket pressures that influence strategic decisions (Davis et al., 2000; Haveman, 1993; Oliver, 1991). Firms strive for legitimacy by complying with their institutional context and this legitimacy is influenced by abuse of power's effects on institutions (Glynn & Abzug, 2002). The abuse of power (caused by either firms or institutions) is of nonmarket origins but it can affect firm's market transactions.

The impact that nonmarket issues may have on the organization business activities depends to a great extent on the company's interests on the nonmarket environment (Wartick & Mahon, 1994). The following section discusses such overarching interests.

3.2.3. Interests

In order to explain the common and overarching interests characterizing the nonmarket environment we need to firstly refer to two main groups of interests: interest of institutions and interests of firms. The interests of the nonmarket institutions encompass designing, implementing and overseeing the compliance to various rules and regulations which have collective views and regard for a common welfare and broader societal interests. These interests are concerned with core values and go beyond pure market objectives (Baron, 1995). The collective interests of nonmarket institutions are often conflicting or they diverge from the interests of firms; while the collective interests of nonmarket institutions refer to shared values and welfare, the interests of firms are more performance oriented. From the perspective of firms such collective societal interests often bring additional costs or efforts which organizations would not otherwise willingly make (Baron, 1995).

We regard overall nonmarket interests as arising from political, social and cultural factors (including moral/ ethical) as necessary complements to economic interests. They help attain societal and organizational effectiveness. Effectiveness is a complex notion defined in terms of a conjunction of interests between a specific organization and those external ones affected by it, with joined (common) interests being related to worthy ends and appropriate means (Scott, 1995; Pfeffer & Salancik, 1978). For sociologists, interests arise from endogenized social, political and cultural factors that permeate economic exchanges and that are often necessary to achieve individual, organizational and interorganizational effectiveness which would not be possible when economic action would be under-socialized (Granovetter, 1985, 1992). This entails that economic exchanges are not purely dyadic, rational, self-interested and impersonal because cooperation is common among exchanging parties which (as they conform to rules, norms and customs) thereby developing a socialized rationality on account of the social embeddedness of economic action. We take this argument a step further and we consider that the overall nonmarket interests overarching, characteristic and common to both institutions and firms to be the social embeddedness of economic actions. This can be regarded as an overall interest specific to both

institutions but also firms on the nonmarket environment. Firms have the nonmarket obligation to consider the appropriateness of their economic actions and institutions have the main interest to assure through their rules and regulations that firms and organizations embed various social interests in their actions. Depending on their interests or stake in a nonmarket issues, both organizations and institutions may use information to achieve their goal/interest. The following section further discusses the information exchanges which characterizes the nonmarket environment.

3.2.4. Information

Both nonmarket institutions and organizations can use information to achieve their goals or interest and through information they can affect the saliency of the issue depending on its life cycle as information forms the basis for informational or reputational cascades. An information (or informational) cascade occurs when individuals or organizations observe the actions of others and then make the same choices, independently of their own private information signals. Nevertheless, information cascades can sometimes lead to arbitrary or even erroneous decisions (Bikhchandani et al., 1992). When information is limited or costly to obtain, the organization will chose to be followers based on reputation cascades and imitate the actions of the experts. This organizational behavior is dependent on the information available to achieve their interest issues. However, also institutions need to obtain information about and from the affected parties involved, to assess this information and to reach a decision based on the evidence presented. They must also publicly provide information about their decision, rationale and proposed policy changes (McCubbins et al., 1987, 1989). Accessing the information needed in the judging process creates a resource dependency relationship between these institutions and the firms they regulate (Pfeffer, 1992; Pfeffer & Salancik, 1978). For this reason nonmarket institutions depend on the firms and other interested parties to acquire information needed during regulatory hearings (Mueller, 2003). If the information on which the agency bases its ruling is not substantial, then the regulator runs the risk to have its rulings rejected or overturned by the courts. Subsequently, this will generate in a major loss of legitimacy for the agency. This loss of legitimacy is closely related to the abuse of public power for private (Rodriguez et al., 2005). Institutional theory generally assumes that government and institutions maximize the public interest and, consequently, they fail to deem the effects of abuse of public power on firms (Dunning, 1993; Lenway & Murtha, 1994; Zahra, Ireland, Gutierrez, & Hitt, 2000).

However, the information exchange between firms and institutions is not always transparent or complete. Due to the information exchanges on the nonmarket environment between the two parties, institutions on the one hand, and firms on the other hand, issues of insufficient transparency characterizes the information dependency relationships between the two. Information and interests relate firms to institutions by means of the issues tackled by various types of institutions. Depending on the firms' interests in a specific issues they enter in an information exchange with various institutions. Furthermore, institutions tackle various interest issues for organizations, promulgating and implementing regulations regarding these issues. Institutions can also further influence information exchange on specific issues of the nonmarket context.

Social institutions especially the media and interest groups can influence information exchanges and issues life cycle on the nonmarket arena.

In practice asymmetries of information characterize the nonmarket framework as well as the institutions and firms interacting on this environment and further explain the relationship between firms and nonmarket institutions (Keim & Zeithaml, 1986; Lewis & Sappington, 1991). Imperfect transparency between the nonmarket institutions and firms imply that informational asymmetries or incomplete transparency creates a knowledge gap concerning the policy outcomes and implications for their operations (Holburn & van den Bergh, 2004).

3.3. Host nonmarket environment

Due to various nonmarket components, issues and interests, the complexity of nonmarket environment is further elevated by institutional antecedents and differences between countries with regard to their political system, legal system, and social system. Nonmarket issues, institutions, and interests vary across countries and some nonmarket issues can be less salient in one country, while public opinion can regard them as more emerging and salient in another host setting. The institutional systems also fluctuate across countries; in regionally integrated states there are different institutional systems governing transactions than in countries which are not members of supranational entities. Regional integration refers to the formal transfer of legal authority and decision-making power from member states to a supranational institution or international body. In this context Moravcsik (1991) distinguishes between pooled sovereignty, when governments agree to make future decisions by voting procedures other than unanimity; and delegated sovereignty, when supranational actors are given the

authority to take certain types of decisions without either a vote amongst affected governments or the capacity of states to veto the decision. Although often used loosely to describe any set of supranational institutions (institutions above the state), the term 'supranational' refers more properly to a particular characteristic of international institutions and international legal authority. This phenomenon has led to an increasingly complex set of institutions and integration processes. In any region supranational institutions can be seen as part of a complex system of multi-level governance. Regional integration represents a set of norms, instruments and institutional arrangements which can be used selectively and in combination with other approaches. Except in the case of outright political unification, it is most unlikely that all spheres of activity will be covered by some kind of supranational arrangement. There are likely to be different combinations of supranational and intergovernmental elements in different issue areas, according to the degree of sensitivity, the likelihood of opportunism, and the need for uniformity in each case.

Furthermore, even within the same type of institutional settings (regionally integrated or not), some types of institutions have more power or exposure depending on the host country (and independent of the integration level). Social institutions are also regarded differently depending on the host setting; in some countries the media and interest groups have more impact and saliency power on the public opinion and, implicitly, on business activities than in other countries. In other host settings social institutions such as the media can maximize the welfare of consumers (depending on the extent of government ownership). However, the public choice theory holds that a government-owned media outlet would distort and manipulate information. In other countries, private and independent media supply alternative views to the public society. Moreover, competition among media firms assures that voters, consumers, and investors obtain, on average, unbiased and accurate information (Djankov et al., 2003).

Therefore information exchanges and nonmarket issues can also vary across countries. Some host contexts are more prone to social interests or to transparent information exchanges, while in other host settings more intransparent information exchange is allowed and characterizes transactions. The multitude of differences between the host and the home nonmarket environment amplify the complexity and goals of nonmarket strategies (Beck et al., 2001; Hillman, 2003; Hymer, 1976; Zaheer, 2002; Miller & Richards, 2002) and can even cause foreign firms to under-perform domestic firms due to a wide range of unfamiliarity costs vis-à-vis economic, social, legal, political and cultural host institutions and issues (Hennart, 1982; Buckley & Casson, 1976).

3.4. Firms' actions in the nonmarket environment

While in the previous section we discussed the various components of the nonmarket environment, the purpose of this section is to explain how firms can manage this environment. We advance that nonmarket strategies entail the management of nonmarket issues, the treatment of uncertainties or influences from the nonmarket environment, and the achievement of nonmarket interests which balance market objectives. Nonmarket strategies are complementary strategies to encounter complex influences outside the market space, to manage the threats and opportunities from the nonmarket environment and to attain nonmarket interests that complement market activities (Baron, 1995; Bonardi, Holburn & Van den Berg, 2004; Hillman & Hitt, 1999; Prakash, 2002). These nonmarket strategies entail actions carried out in public arenas to manage nonmarket issues from various institutions and between these institutions and the firms' activities (Wartick & Mahon, 1994). Nonmarket actions entail proceedings employed in public arenas to manage issues related to a wide array of institutions, national or supranational, amongst which interest groups, political institutions, the media, regulatory institutions, standards agencies, which all constitute the nonmarket framework (North, 1990; Scott, 1995). Nonmarket strategies imply an actual or anticipated resolution that creates significant, identifiable impact on the organization (Wartick & Mahon, 1994).

Nonmarket strategies fill in the gap between business activities and societal expectations, between what is and what ought to be 'social embeddedness of economic activities' (Granovetter, 1985; Wartick & Mahon, 1994). Nonmarket strategies complement market activities but are additionally concerned with collective interests and core values that go beyond pure market objectives (Baron, 1995).

Generally nonmarket strategies also serve to monitor public interests in the institutional environment. To better comprehend the diversity of forms and types of nonmarket actions that foreign owned firms have at their disposal, we employ a rather widespread description, namely transactional actions and relational actions (Hillman & Hitt, 1999). Transactional actions involve nonmarket practices or proceedings which are issue-specific and of non-repeated nature (Uzzi, 1997). These actions include reactive deeds or short-term interactions characterized by arm's-length-ties and ad-hoc basis (Mahon et al., 2004). Issue-by-issue interactions leading to self-interest motivated conduct without network building purposes also characterize this type of nonmarket actions (Uzzi, 1997). Collective interests and stakeholder management are not the focus of transactional actions. Relational

actions however, aim to maximize the alignments of the organizations with collective interests of stakeholders. Relational actions include more proactive practices which serve to minimize surprises and exercise control over institutional processes (Mahon et al., 2004). This repertoire includes long-term actions and cooperative processes meant to build relations with various stakeholders (Hillman & Hitt, 1999). For these nonmarket interactions, the structures and processes of the relation are of key importance. This array also includes actions targeted at development of social capital and network of relationships (Nahapiet & Ghoshal, 1998). Information transfer and joint problem-solving arrangements are important here (Uzzi, 1997). Relational actions can decrease the probability of opportunistic behaviour or reduce the costs of monitoring processes (transaction costs). Also transactional actions are often used by foreign firms to fine-tune or complement other relational actions.

Furthermore, firms may adopt and implement actions in the nonmarket arena individually or collectively. Individual actions entail solitary efforts made by individual companies outside of relationships network to affect various nonmarket interest issues. Collective action however denotes the collaboration and cooperation of two or more firms in the nonmarket endeavor (Hillman and Hitt, 1999).

Nonmarket strategies can also be either long term oriented and create a certain in-depth base within the host setting meant to avoid or decrease nonmarket influences on their activities. They involve a significant commitment of organizational resources and they are intricate to implement and reverse (Chen, 1996). Such nonmarket strategies entail a careful consideration of specific characteristics of the host nonmarket environment such as diversity and power institutions, its pluralistic issues, transparency and its most influential means (Miller & Wanta, 1996). However, firms can also develop short term nonmarket endeavors mainly based on event-specificity and temporary actions. They are handy tools for firms to quickly manage the contingencies from the nonmarket environment without attempting a fit between the organizational strategy and structure to these contingencies (Donaldson, 1996).

3.5. Conclusions

In this chapter we have discussed the main perspectives which contributed to the development of the nonmarket concept and employed insights from these perspectives to further deepen our understanding of the components of

nonmarket environment. As nonmarket constituents we explained the various nonmarket institutions, issues, interest, and information playing a role on the nonmarket environment. This discussion serves as a bridge or platform for the following chapter which empirically explores the nonmarket pressures resulting from this environment and the way these firms can manage such pressure through nonmarket strategies. To date the few studies on nonmarket strategies merely enumerate an inventory of different actions to be used in diverse situations. Scholars emphasize the need to understand the dynamics and determinants behind nonmarket strategies or nonmarket behavior (Bonardi & Keim, 2005; Boddewyn & Brewer, 1994; Getz, 1997; Hillman & Hitt, 1999; Hillman, 2003).

Due to these elements host environments become more complex for the firms operating in a host setting. Therefore, we further focus our inquiry on foreign owned firms and the way they can respond to influences from nonmarket environment. The nonmarket institutions, issues, interests, and information aspects elaborated in this chapter will be further employed in the next chapter to explore the nonmarket institutional pressures in relation to the nonmarket actions of foreign owned firms.

CHAPTER 4

NONMARKET INSTITUTIONAL PRESSURES AND THE FREQUENCY OF NONMARKET ACTIONS²

This chapter explores the relation and sources of variation in the strength of institutional pressures and nonmarket actions. Based on institutional, international business and corporate political strategy literature, we explore institutional factors explaining pressures from six types of institutions: national regulators, political institutions, standards agencies, interest groups, the media supranational regulators, on the frequency of nonmarket actions undertaken by foreign owned firms to deal with these pressures in an open regionally integrated economy. Evidence is provided by a survey sample of 160 foreign owned firms operating in the Netherlands. Results show that four types of institutions have the highest explanatory value for an increase in frequency of nonmarket actions are national regulators, standards agencies, interest groups, and the media along with the specific institutional factors elucidating these effects. Empirical outcome also indicates a strong dependency of national level institutions on the supranational echelon. This study further contributes to the discussion of plausible explanations for why firms adopt nonmarket actions.

²We would also like to express our gratitude to the scholars who provided valuable feedback during the review process and acceptance of this study for presentation at the following conference:

- European Academy of International Business Annual Meeting, Bucharest, Romania, December 8-10, 2011.

4.1. Introduction

Institutional theory has widely debated the underlying influence of institutional pressures to organizational actions (DiMaggio & Powell, 1983; Meyer & Rowan, 1977; Meyer & Scott, 1983). Within this stream research focus has fallen on the relationship between market (economic) institutions and organizational actions or responses. However, the institutional spectrum goes beyond market institutions and it also includes nonmarket establishments, namely specialized political, social, and regulatory institutions with supervisory, regulatory, and governing purpose which provide societies with wealth, coercion, integration, inclusion, and cooperation (Parsons & Smelser, 1956).

Such social, political, and legal arrangements structure organizations' interactions outside of, and, in conjunction with markets (Baron, 1995). Nonmarket institutions are indispensable because market institutions are often fraught with natural failures (e.g. uncertainty, opportunism, monopolistic situations) as well as with artificial/ structural imperfections (e.g. business collusion and government intervention) (Scott, 1995: 356; see also Pfeffer & Salancik, 1978: 34; Bell, 1995: 607; Hirschman, 1970). Together with market institutions, nonmarket arrangements create order and reduce uncertainty in exchanges; they outline the rules of the game that determine the economic and non-economic behavior of organizations (Polanyi, 1957). Both market and nonmarket institutions relate to organizational actions through what is often regarded as conflicting demands and factors. Whereas market institutions have fairly economic intents, nonmarket institutions entail social, political, and legal arrangements that complement market provisions but are additionally concerned with collective interests and core values that go beyond pure market objectives (Baron, 1995). While the market types are well elaborated by literature, the nonmarket institutions and pressures remain ambiguous (Dean & Brown, 1995). Despite widespread managerial and academic acceptance that nonmarket components represent an important and complex branch of the business environment, the nonmarket literature remains somehow vague regarding the extent of nonmarket institutional pressures and the organizational actions or responses to these pressures. Such institutions can cause numerous implications that are not related to the market arena but do influence firm's market performance (Boddewyn, 2003). While nonmarket institutions have supervisory and regulatory capacity to remedy market failures, it remains unclear whether such institutions (through rules and regulations of governing purpose) increase the organizational responses or whether, due to the various functions that they fulfill, nonmarket actions are less needed. Therefore, the purpose of this study is to fill in the literature gap regarding the relationship between nonmarket

institutional pressures and organizational actions or responses to these pressures.

Due to various nonmarket components, issues and interests, the complexity of nonmarket environment is further elevated by institutional antecedents and differences between countries with regard to their political system, legal system, and social system. Nonmarket issues, institutions, and interests vary across countries and the multitude of differences (political, cultural, social, and economic) between countries amplify the complexity of institutional pressures and goals of nonmarket actions (Beck et al., 2001; Hillman, 2003; Hymer, 1976). Moreover, in regionally integrated countries there is a different institutional set governing transactions than in countries which are not members of supranational entities. Supranational institutions can be seen as part of a complex system of multi-level governance. Regional integration represents a set of norms, instruments and institutional arrangements which can be used selectively and in combination with other approaches. All spheres of activity within the integrated region will be covered by various types of supranational arrangements. As a consequence, there are different combinations of supranational and intergovernmental elements in different issue areas, according to the degree of sensitivity, the likelihood of opportunism, and the need for uniformity. Therefore, effects and implications of such supranational and national interplay should be also considered when studying nonmarket institutional pressures. Therefore, we conduct our study of nonmarket institutional pressures and nonmarket organizational actions among foreign owned firms operating in a host economy member of a supranational entity in which we can also explore the pressures of various levels of institutions including supranational ones. A suitable research setting for this study is the Netherlands, a small industrialized country with an open and integrated economy member of European Union (EU). It represents the fifth largest recipient of foreign investment in the world and, due to its favorable location and active role within the EU many multinational enterprises (MNEs) have chosen this host country as strategic orientation. Moreover, in the case of the Netherlands, the membership to EU counteracts the adverse scale effects of small size by extending the domestic market (Armstrong & Read, 1998).

Data on the foreign owned firms were obtained through a questionnaire survey. Results show a positive relationship between four types of institutional pressures from national regulators, standards agencies, interest groups, the media and the frequency of nonmarket actions of foreign owned firms. Empirical outcome also indicates a strong dependency of national level institutions on the supranational echelon.

The structure of this study is as follows. In section 2 we offer a more comprehensive and structured view of the wide spectrum of nonmarket actions. Section 3 explores the nonmarket institutional pressures and their influence to nonmarket actions along with the proposed hypothesis. Section 4 presents the sample, method, and data along with structural equations model. Section 5 presents the analysis and empirical results, followed by a discussion of the results in section 6. The final section discusses the contribution of our work and implications for practice.

4.2. Nonmarket actions

Nonmarket actions entail proceedings employed in public arenas (Baron, 1995; Schaffer & Hillman, 2000) to manage issues related to a wide array of institutions, national or supranational, amongst which interest groups, political institutions, the media, regulatory institutions, standards agencies, which all constitute the nonmarket framework (North, 1990; Scott, 1995). Nonmarket actions complement market activities but are additionally concerned with collective interests and core values that go beyond pure market objectives (Baron, 1995). Generally such types of actions also serve to monitor public interests in the institutional environment. To better comprehend the diversity of forms and types of nonmarket actions that foreign owned firms have at their disposal, we employ a rather widespread description, namely transactional actions and relational actions (Hillman & Hitt, 1999). Transactional actions involve nonmarket practices or proceedings which are issue-specific and of non-repeated nature (Uzzi, 1997). They represent reactive deeds and short-term interactions characterized by arm's-length ties and ad-hoc basis (Mahon et al., 2004). Issue-by-issue interactions leading to self-interest motivated conduct without network building purposes also characterize this transactional type of nonmarket actions (Uzzi, 1997; Kaufmann, 1998). Furthermore, transactional nonmarket activities include issue-lobbying, temporary grassroots mobilization of employees, suppliers, or customers, advocacy advertising, contracting media experts and press conferences. Collective interests and stakeholder management are not the focus of transactional actions. The resources and actors for such actions are immobilized provisionally to deal with a certain event or target (Hillman & Hitt, 1999). Accordingly, firms identify, educate and motivate action groups or stakeholders who may be affected by same temporary issues or policies that also affect the firm itself (Hillman & Hitt, 1999; Keim & Zeithaml, 1986).

Relational actions however, aim to maximize the alignment of the organization with collective interests of stakeholders by using more proactive practices which also serve to minimize surprises and exercise control over institutional processes (Mahon et al., 2004). This relational repertoire includes long-term actions and cooperative processes meant to interact and to build relations with various stakeholders (Hillman & Hitt, 1999). For these nonmarket interactions, the structures and processes are of key importance including actions targeted at developing social capital and network of relationships (Nahapiet & Ghoshal, 1998). Thus, transactional actions are aimed at building relations between actors, issues, contacts and stakeholders in the host environment, where firms are able to create a certain reputation to avoid becoming targeted by nonmarket actors (media, interest groups) (Baron & Diermeier, 2007). Relational actions maximize associations with other host actors; they insure trust, information transfer and joint problem-solving arrangements (Hillman & Hitt, 1999; Keim & Baysinger, 1988; Keim & Zeithaml, 1986). Inter-organizational collaboration has been linked to a range of important outcomes such as sharing critical resources and facilitating knowledge transfer. The literature also argues that collaboration not only transfers existing knowledge among organizations, but also facilitates the creation of new knowledge and produce synergistic solutions (Hardy et al., 2003).

Relational actions can decrease the probability of opportunistic behavior or they can reduce the costs of monitoring processes (transaction costs). Transactional actions are often used by firms to fine-tune or complement relational actions. Relational and transactional nonmarket actions can be concurrently implemented, thus, firms can make intertwined use of these actions (Chen, 1996). These two groups of nonmarket actions provide a more comprehensive and structured view on the concept and on the collection of nonmarket actions. Therefore, the following sections discuss how different nonmarket institutions can relate to these actions.

4.3. Nonmarket institutions and nonmarket actions

Economic matters are no longer sufficient for understanding the complex institutional influences and their implications for the organizational actions of foreign owned firms in the host environment. We need to expand the traditional market framework and further consider non-economic mechanisms and institutions. Organization theory argues that since market exchange mechanisms are plagued by information asymmetry, property rights, bargaining and other problems, nonmarket institutions with a regulatory purpose (rules, norms and

customs) will allow firms to cope with uncertainty and interdependence issues (Barron et al., 1994). Thus, these institutions regulate and solve market failures and outline the rules of the game through various rules, regulations, norms, and customs (Williamson, 1996). Nonmarket institutions are necessary because market institutions are often fraught with natural failures (e.g. resource rareness, uncertainty, opportunism, monopolistic situations) as well as with artificial/structural imperfections (e.g. business collusions, government interventions) (Scott, 1995: 356; see also Pfeffer & Salancik, 1978: 34; Bell, 1995: 607; Hirschman, 1970). Under the spectrum of nonmarket institutions, in addition to regulatory types, Edwards and Fowley (1998) also propose various arrangements of social types such as interest groups and nonprofit organizations as achieving social balance and cohesion between the market and nonmarket activities. Finding a single and consistent literature stream explaining nonmarket institutions and their relation to organizational actions has proved problematic. Depending on the kind of issues they tackle, various nonmarket institutions emerged: regulatory/ legal institutions and standards authorities (Polanyi, 1957; Galbraith, 1955; Myrdal, 1968; Swedberg, 1991), political institutions (Simon, 1991; Peters, 1999; Bill & Hardgrave, 1981), and social institutions, as the media and interest groups (Dimaggio & Powell, 1983; Scott & Meyer, 1983; Hughes, 1939).

4.3.1. National regulators

A prime nonmarket institution framing organizational actions is represented by national regulatory authorities or national regulators; they are public establishments exercising autonomous authority over specific areas of activity, with a regulatory or supervisory capacity (Scott, 1995). They cover areas of administrative law, regulation and rulemaking (codifying and enforcing rules, regulations, and imposing supervision or oversight). Some regulatory agencies also perform audits, and some are authorized to inflict certain punitive measures to the relevant parties (Kanter, 1999). The business-government interface is also shaped by official rules and regulations (Suchman, 1995). Due to the fact that national regulators normalize and supervise also the business setting through normative and regulatory activities that are outside but complementary to the market space, they are regarded as nonmarket institutions. Regulatory authorities are commonly set up to oversee the use of public goods, insure social welfare and regulate business activities of domestic and foreign owned firms (North, 1990; Baron, 1995). However, regulatory institutions differ across countries and, as a result, foreign owned firms in the host country often have to manage regulatory systems which differ from their home arrangement (Aghion & Tirole, 1997; Department for International Development, 2000).

As perfect transparency, autonomy and consistency of regulatory matters have an ideal connotation, in practice deficiencies of transparency, autonomy and consistency characterize the regulatory framework (Lewis & Sappington, 1991) and explain the pressure of national regulators on foreign owned firms' activities (Keim & Zeithaml, 1986). Insufficient transparency of rules and regulations imply that informational asymmetries or incomplete transparency of rules and regulations create a knowledge gap concerning the policy outcomes and implications for firms' operations (Holburn & van den Bergh, 2004). To manage this gap foreign firms can increase relational nonmarket actions and create collective networks or participate to business associations. Through networks with other stakeholders, institutions and firms, foreign companies acquire knowledge and social capital which decreases their information gap and liability of foreignness caused by imperfect transparency of the regulatory processes (Zaheer, 1995). Moreover, through collective networks these firms can also insure trust, legitimacy, information transfer and joint problem-solving arrangements (Hillman & Hitt, 1999; Keim & Zeithaml, 1986).

Furthermore, regulatory institutions do not always have complete autonomy in establishing, promulgating and implementing regulation. Occasionally, input and priority issues are specified by other (state) institutions (Stigler, 1971). In addition, in many economies a heritage of state intervention, government policy, or excessive regulations still persist and heavily constrain foreign owned firms' activities (EDD, 2000). This influences the autonomy of national regulators, in particular the operation of effective and uncorrupt courts, which would enforce proper and consistent regulatory procedures for the foreign owned firms (Stern, 1997). Insufficient autonomy of national regulators also manifests itself as the abuse of power on behalf of institutions confined by pervasiveness - the average firm's likelihood of encountering abuse of power in its normal interactions (Bardhan, 1997; Tanzi, 1998; Treisman, 2000). The expected degree to which abuse of power is a regular and significant part of economic and non-economic activity also affects organizations. It creates opportunities of internalizing environmental threats through absorption (Ring et al., 1990) and of purchasing facilitating services and favorable regulatory decisions (Boddeyn & Brewer, 1994). In the case of foreign owned firms managing the abuse of host institutional power (or decreasing its effects) becomes a nonmarket target achieved through various nonmarket actions such as increasing interactions and collaborations with local and national actors in order to decrease the pervasiveness in transactions (Rogriguez, Uhlenbruck, & Eden, 2005).

The pressure of national regulators on organizational actions is also augmented by a rather short term perspective of regulatory actions and promulgations. A short term perspective also increases the complexity of the regulatory framework in the host country and the grasp for future implications of certain rules and regulations for the organizational activity. Foreign owned firms can cope with possible repercussions of a short term regulatory outlook by utilizing transactional nonmarket actions and engaging specialists to gain insight into certain regulatory aspects specific to the host country. Launching partnerships with like-minded firms or with host actors can also increase the awareness over regulatory processes (Stern, 1997; Stern & Holder, 1999).

Thus, in order to manage the pressure of national regulators (and their specific factors) foreign firms make use of both relational nonmarket actions (collective networks, business associations' participation, partnerships with like-minded firms) and transactional nonmarket actions (contract specialists). We expect that such actions can compensate for their information gap, liability, can create a certain in-depth base within the host setting which helps foreign firms to better cope with the overall pressure of regulatory institutions (Boddewyn & Brewer, 1994; Hillman & Hitt, 1999; Mahon et al., 2004). Therefore, we formulate the following hypothesis:

Hypothesis 1: The pressure of national regulators, explained by a) insufficient transparency, b) insufficient autonomy and c) short term perspective of rules and regulations, increases the nonmarket actions of foreign owned firms.

4.3.2. Standards agencies

Besides complying with regulatory matters, foreign owned firms must also comply with various standards, obtain licenses, obey principles and customs which are imposed in the host country (McCubbins et al, 1987). For this reason, we regard standards agencies/ authorities as an important nonmarket institution which functions to watch over social loss abatement and loss abatement for enterprises (Palmer et al., 1993). Social loss abatement entails minimizing the foreign owned firms' activities which generate hazards for health and safety of the public interest (Congleton; 1984). It also refers to optimizing the degree of loss with administrative and other compliance costs associated with regulations (Ogus, 2002). While national regulators establish rules and objectives to be followed by foreign owned firms and while governments act as mediators between the two, standards agencies set up and define the measures to be taken

by foreign owned firms before entering the regulated business arenas. Standards agencies frame the activities of these firms through prior approval requirements, mandatory standards and information disclosure (input or output prohibitions) (Rao et al., 2001). Information disclosure imposed by standards agencies demands foreign owned firms to reveal adequate information regarding quality/safety, on the basis of which customers can exercise preference. Information disclosure is mainly meant to avoid welfare losses from consumers being deprived of choice (Shaffer, 1995). Firms have the selective choice about the manner to disclose information as long as it falls under the regulatory goals of the host country (Lenway & Murtha, 1994). As it might prove difficult for foreign owned firms to reveal the necessary information in a form which is culturally adequate for the host setting, these firms are granted the freedom to self-regulate their performance.

However, prior approval obliges foreign firms to obtain a license or permit from the authorized institutions before they lawfully engage in an activity or supply a product/ service in the host country. For obtaining such authorizations foreign owned firms have to fulfill the requirements of optimal loss abatement or certain other conditions which might imply extra costs for these firms (Meznar & Nigh, 1995). Such costs to comply with standards, to obtain permits and licenses are the direct result of the standards imposed criteria. More than often these costs are high and various imposed standards seem unjustified (Ogus, 2002). Therefore, expenditures for fulfilling their requirements are considered by foreign firms as peripheral and seldom groundless. As a result, firms attempt to decrease such unnecessary expenditure through transactional nonmarket actions, by lobbying for the abrogation of unnecessary standards in the host country (Oliver, 1991). However, other transactional actions such as constituency building, the temporary mobilization of employees, suppliers, customers, advocacy advertising, public relations, press conferences and political educational programs can also lead to the abrogation or adjustment of criteria (Hillman & Hitt, 1999). Foreign owned firms also try to identify, educate and motivate action groups or stakeholders that may be affected by same norms ((Itoh, 1993; Keim & Zeithaml, 1986). Hence, pressures from standards agencies manifested through additional organizational costs to fulfill with various standards criteria can increase nonmarket actions. Consequently, we formulate the following hypothesis:

Hypothesis 2: The pressure of standards agencies, manifested through a) costs made with permits, licenses, and b) costs to comply with imposed standards, increases the nonmarket actions of foreign owned firms.

4.3.3. Political institutions

Nonmarket arrangements also include the influences generated by political institutions as instances of the public authority, entailing public policy related issues, costs and benefits for companies when getting involved on the political arena (Weingast, 1995). Political institutions are closely associated with the form of government or the regime type (Persson, 2001) and politics become attractive for foreign firms when the political arena provides opportunities for triumph on policy outcome which the firm pursues (Grossman & Helpman, 1996; Bonardi, Hilman, & Keim, 2005). However, foreign owned firms become involved and highly responsive to the nonmarket political arena when policy outcomes in the host environment affect their businesses (Masters & Keim, 1985). Similar to the economic markets, where industry attractiveness is fundamental for justifying the entry of firms, foreign owned firms will become involved on the political nonmarket arena and will interact with political institutions when politics are attractive or pressure their business operations (Porter, 1980). This pressure is explained through the saliency of political issues, and the costs/ benefits of doing politics (Bikhchandani et al., 1992). Saliency refers to the public awareness regarding a specific issue in which the firm also has an interest stake (Bonardi et al., 2006). If the issues for which firms aim to obtain a favorable policy outcome have low saliency (a low public interest), then firms will have a relative advantage in shaping the final decisions regarding the specific matter (McCubbins et al., 1987). Having greater chances for success in their political endeavors (i.e. obtain desired policy outcomes) creates incentives for nonmarket political actions. Political actions are mostly transactional and refer to contracting employees or specialists with political experience (Buchanan, 1980; Baum et al., 2000). The efforts to develop actions to mitigate for policies that will develop into a salient issue are venues taken in the nonmarket arena (Laffont, 1995; Hillman & Keim, 1995). Efforts to respond to an issue before it becomes politicized and widely salient can be successful in resolving an issue depending on its life cycle (Bigelow et al., 1993). Organizations which delay to respond to an issue can lose substantial decision-making discretion because, on longer term, legislation is crafted and regulation enforced. As policy issues derive also from firms' agendas, foreign owned firms can best forward such issues by hiring individuals with government experience, company members with a political position in governmental bodies or other sorts of contributions outside the market spam (Benton & Daly, 1991).

However, the efforts made by firms for obtaining the desired policy outcomes are regarded as costs of politics or political involvement (Laffont, 1995). If the policy outcome aimed by foreign owned firms is obtained with diffused costs

and brings concentrated benefits, then these firms are more attracted towards politics and political actions and, therefore, they will increase their political actions (Glynn & Abzug, 2002). However, due to the lack of familiarity with host setting, foreign owned firms find it more difficult to influence existing host political agendas and, therefore, need to dedicate extra effort/ actions to place new policy issues on public agendas (Miller & Richards, 2002). Interactions with host institutions on a regular base, building long term relationship networks can help foreign firms place policy issues on political agendas. These actions are sometimes complemented by the presence of firms' members in political parties or by employing people with political experience (Dean & Brown, 1995). We formulate the following hypothesis:

Hypothesis 3: The pressure of political institutions, manifested through a) the saliency of political issues and b) the costs of politics, increases the nonmarket actions of foreign owned firms.

4.3.4. Interest groups

Interest groups are organized collections of people habitually motivated by social and ethical concerns who seek to influence business practices, firm and industry practices, political and economic decisions (Ades & DiTella, 1999). Such groups are formed among individuals and organizations with aligned interests and with same stake interests on the nonmarket arena. They are active mitigators for certain causes and foundations who aim to achieve their interest usually by gaining public's opinion and support (Bonardi et al, 2006; Dasgupta et al, 1979). There is a wide variety of active interest groups which focus predominantly on post-material nonmarket issues such as consumer issues, environmentalism and minority rights rather than economic issues such as import duties, manpower training, and farm price support (Haveman, 1993; Fukuyama, 1996). Interest groups operate by influencing governments, or by directly influencing firms (Vogel, 1978), consumers and policy discourses (Wapner, 1995). No matter their motivation, interest groups have become very skillful in obtaining desired policy outcomes and in pressuring elected and administrative officeholders for various rules and regulations impinging on foreign owned firms' activities (Baron, 2006). The capacity to influence public opinion (or the power of the interest group) is a fundamental factor representing the pressure of the group on decision makers and its saliency capacity (capacity to induce saliency on a specific matter/issue) (Buchanan, 1980). If the interest group has a high influence on the public opinion, it is likely that the matters of its concern will become of large interest

and boast strong reactions and support. Habitually, interest groups have collective concerns/ interests which dictate their wide spectrum of influence especially over certain business areas (Mahon et al., 2004). Foreign owned firms often react to this influence through relational nonmarket actions. i.e. incorporating issues mitigated by interest groups to their long term commitment or transforming (core) values to fit contingency interests of these groups. Such actions can lead to an alignment of firms' activities to some of (apprehension) collective concerns of interest groups issues (Landes & Posner, 1975). In some host settings, interest groups are concerned with collective issues which are not considered as priority in other host settings. Accordingly, foreign firms use stakeholder management to build strong reputations and legitimacy and to manage the possible pressure of these groups. Foreign owned firms can also adapt to the main guidelines mitigated by the interest groups in the host setting before affecting the company's image (Bonardi & Keim, 2005); by monitoring specific business functions towards socially responsible reputations which would avoid being targeted by interest groups (Baron & Diermeier, 2007). Moreover, foreign owned firms can acquire knowledge by hiring experts into cultural specific manners of collaborating with the groups of strong influence power in the host country (Itoh, 1993) or potential business group associations for suitable future cooperations (Becker; 1983). However, foreign firms can also use transactional and more temporary actions such as campaign contributions, donations, and support on various platforms to interact with influential interest groups. Therefore, we advance the following hypothesis:

Hypothesis 4: The pressure of interest groups, determined by their a) capacity to gain public opinion and b) collective concerns, increase the nonmarket actions of foreign owned firms.

4.3.5. The media

The media can also pressure organizational activities by affecting firms' reputation and legitimacy in the host country. The media alerts the public, activists, interest groups, and government on market and nonmarket issues; it raises concerns about firms' practices and it reduces the costs of collective nonmarket actions due to its influence power over public opinion or society at large (Bardoel & d'Haenens, 2004). The media places firms' activities under the scrutiny of other market and nonmarket institutions. It continuously shapes public opinion and plays a central role in educating, informing, and empowering the public with regard to social responsibility and sustainable development (Schaffer & Hillman, 2000).

However, the role of the media is neither fixed nor well-defined, but it is determined, implemented, and interpreted by legislatures, government administrative agencies, judicial institutions, public sentiment and ethical consensus (Rogriguez, Uhlenbruck, & Eden, 2005). These rules of the game vary across countries. Credibility is of central importance for media's influence on business and society (Bucy, 2003). Media's credibility can be identified as perceptions of media believability, accuracy, bias, fairness, and completeness of information (Haley, 1996). Likewise, its concern for public interest is given by the fact that the media uncovers malpractice and corruption at all levels of society, and holds governments and business accountable for their actions on both market and nonmarket issues (Bardoel & d'Haenens, 2004; Landes & Posner, 1975).

For foreign owned firms, the media may also amplify or reduce uncertainty by providing information, presenting facts and events, interpreting changes in legislation, exploring their potential significance and ramifications, and advocating possible courses of action (Miles & Snow, 1978; Pfeffer & Salancik, 1978). The media generally covers issues of high societal significance which are characterized by an increased public interest or concern. Among these issues we find malpractice and unethical business behavior. Consequently, foreign owned firms work on more open and transparent business practices, and they address ethical nonmarket behavior with respect to stakeholder groups such as interest groups, government, non-governmental organizations, and other institutions (Bardhan, 1997). Therefore, foreign owned firms become aware of the likelihood of encountering corruption in its normal interactions within the host country (Bardhan, 1997; Tanzi, 1998; Treisman, 2000) and the inherent degree of ambiguity associated with transactions in a given host nation or state (Rogriguez, Uhlenbruck, & Eden, 2005). When the media has high credibility and strong influence on the host society then foreign firms are motivated to develop media related nonmarket actions to maximize/ utilize media's credibility and influence for organizational benefit (legitimacy and reputation building). Therefore, we develop the following hypothesis:

Hypothesis 5: The pressure of the media, determined by its a) credibility, b) societal influence and c) concern for public interest, increases the nonmarket actions of foreign owned firms.

4.3.6. Supranational regulators

Regional integration commonly refers to the formal transfer of legal authority and decision-making power from member states to a supranational institution or international body. The establishment of economically integrated regions determined the design/ existence of supranational regulators which have increased regulatory competencies over the member states. Overarching the national level institutions, a central role is attributed to supranational regulators which promulgate and enforce an important part of the national legislation and regulation. For this reason, foreign owned firms not only face various influences from national level institutions, but they should also consider the influence of supranational regulators. Such institutions oversee regulatory interests across member countries and, as a result, the legislation in member states has evolved to better outline the rules and regulations of the integrated area (Aghion & Tirole, 1997).

Recognizing that regulation must take into consideration trade-offs between equity and efficiency, deter unfair competition, and minimize undue political intervention, a number of factors facilitate credible and effective supranational regulation while also assessing its practical implementation (Luo & Peng, 1999). Supranational institutions also normalize the activities of foreign owned firms in order to achieve a better outlined regulation in the integrated area. However, due to the multifarious system, the activities of supranational regulators are not always consistent and transparent. The practical implementation of supranational regulations often exercises additional pressures on the activities of foreign firms due to the insufficient transparency and consistency of the supranational rules and regulators which normalize the integrated area. Accordingly, a first factor explaining the pressure of supranational regulators is the inconsistency of rules and regulations between the supranational and national level (Smith, 1997). By setting merely broad duties and objectives, supranational regulators give a large degree of flexibility to member states and business interests (who move at different regulatory speeds) and allow for regulatory diversity (Lewis & Sappington, 1991). However, foreign owned firms' business activities within the host country are not directly regulated by supranational regulators. These institutions just establish broad objectives for the host national level, thus they give contour to the regulatory frame. This phenomenon allows for national variance and interpretation and it has a rather high level of political legitimacy (Smith, 1997), but it suffers from an increasing risk of multiple-level business lobbying, problems of transparency, and the risk of regulatory competition between national regulators. Such matters can be either foreseen or managed by

the foreign firms through coalition building with like-minded firms and business associations' participation to increase collective action and shared interests. Coalition forming is also intended to shape policy agenda for shared benefit and interests (Levy, 1989). Such actions also enable firms to increase their bargaining power by mitigating governmental benefits in the host setting as a way to deal with pressures created by the multi-layer legislation (Baysinger, 1984). Increasing nonmarket actions through coalition forming and participation to business associations leads to a long term commitment of the foreign firms to the host setting.

Conversely, this interplay between national and supranational levels of regulation also leads to an insufficient transparency of regulations which only augments the pressure faced by the firms operating in the host integrated state. In a host regulatory framework it is often unclear which regulation is imposed by supranational institutions and to which extent foreign owned firms should comply. This triggers foreign firms to increase their long-term interactions with local and national governments and cooperations with other host institutions. By means of relational deeds these firms can manage the risks of information asymmetries in comparison with domestic firms which are familiar and understand the multifarious national-supranational interplay (Keim & Zeithaml, 1986). The use of various relational actions to manage the pressure of supranational institutions also decreases the probability of opportunistic behavior, increases social capital, and reduces transaction costs (Uzzi, 1997). Consequently, we formulate the following hypothesis:

Hypothesis 6: The pressure of supranational regulators, determined by a) insufficient transparency and b) inconsistency of rules and regulations between the national and supranational levels, increases the nonmarket actions of foreign owned firms.

Furthermore, under the principle of subsidiarity, member states are granted certain discretion in implementing supranational legislation which leads to multiple tiers of regulation (Coen & Doyle, 2002). The economic regulatory regime in host integrated countries is further multifarious by overlapping jurisdictions, i.e. regulatory commissions, courts of justice, parliaments, member state governments and their respective national regulators. This creates interplay between the two levels of regulation and a mixed input to the regulatory outcome. The supranational regulators have to normalize a multitude of national business sectors through inputs from the diverging views and interests of the member states.

Supranational institutions are intended to increase efficiency in the regulated business sectors; to review current national regulatory frameworks and to oversee the activity of national level institutions; to present improvement proposals for the regulatory framework; to promote competition through a series of regulatory rules; to facilitate harmonized application of rules and regulations across members states; and to decrease the overall risk of opportunistic behavior resulted from gaps in legislation (Martimort, 1996). This phenomenon has lead to an increasingly complex set of institutions, integration and regulatory processes. In any integrated region supranational institutions can be seen as part of a complex system of multi-level (supranational and national) governance. However, due to the multiple tiers involved by supranational institutions (horizontal – given by the multitude of regulated sectors and institutions; vertical – given by the decision makers across members states) the efficiency and complexity of supranational regulatory institutional frameworks is questionable and under scrutiny. The need for promoting more uniformity, simplicity and coordination is put forward by institutions, governments and businesses. National level institutions are overarched by supranational arrangements of all types. For every issue area (regulatory, political, and social) different combinations of supranational and intergovernmental elements govern transactions (Moravcsik, 1991). Consequently, the pressure of supranational institutions will influence to a certain extent the national level institutions such as regulatory, political, standards agencies, interest groups, and the media. Accordingly, we advance the following hypothesis:

Hypothesis 7: The pressure of supranational regulators influences the pressure of national level institutions, i.e. national regulators, standards agencies, political institutions, interest groups, and the media.

4.4. Methodology

4.4.1. Sample and data

The data for this study were gathered using a postal questionnaire survey conducted among managing directors of foreign owned firms in the Netherlands in the summer of 2009. Initially, we used the Dun and Bradstreet database (2007) to select the foreign companies in the Netherlands. This database contains information on their physical and postal address, contact information, names of executives, number of employees, country of origin, SIC codes and sector. Our initial sample of 900 foreign firms was selected on representativeness criteria of

industry and firm size. In order to improve our preliminary survey and assess its feasibility we firstly conducted seventeen in-depth interviews with these managers discussing the survey items. Their comments and suggestions for improvements were used to revise the survey. Subsequently, a pilot survey was carried out to evaluate the revised survey instrument. The number of returned response was in total 180 out of 900 representing foreign owned firms operating in the Netherlands (with mother companies coming from 21 countries including Austria, Belgium, Bermuda, Canada, Denmark, England, Finland, France, Germany, India, Ireland, Italy, Japan, Luxemburg, Norway, Portugal, South-Africa, Spain, Sweden, Switzerland, and US). Missing survey data reduced the number of usable responses to 160 representing around 18 percent of the sampled group.

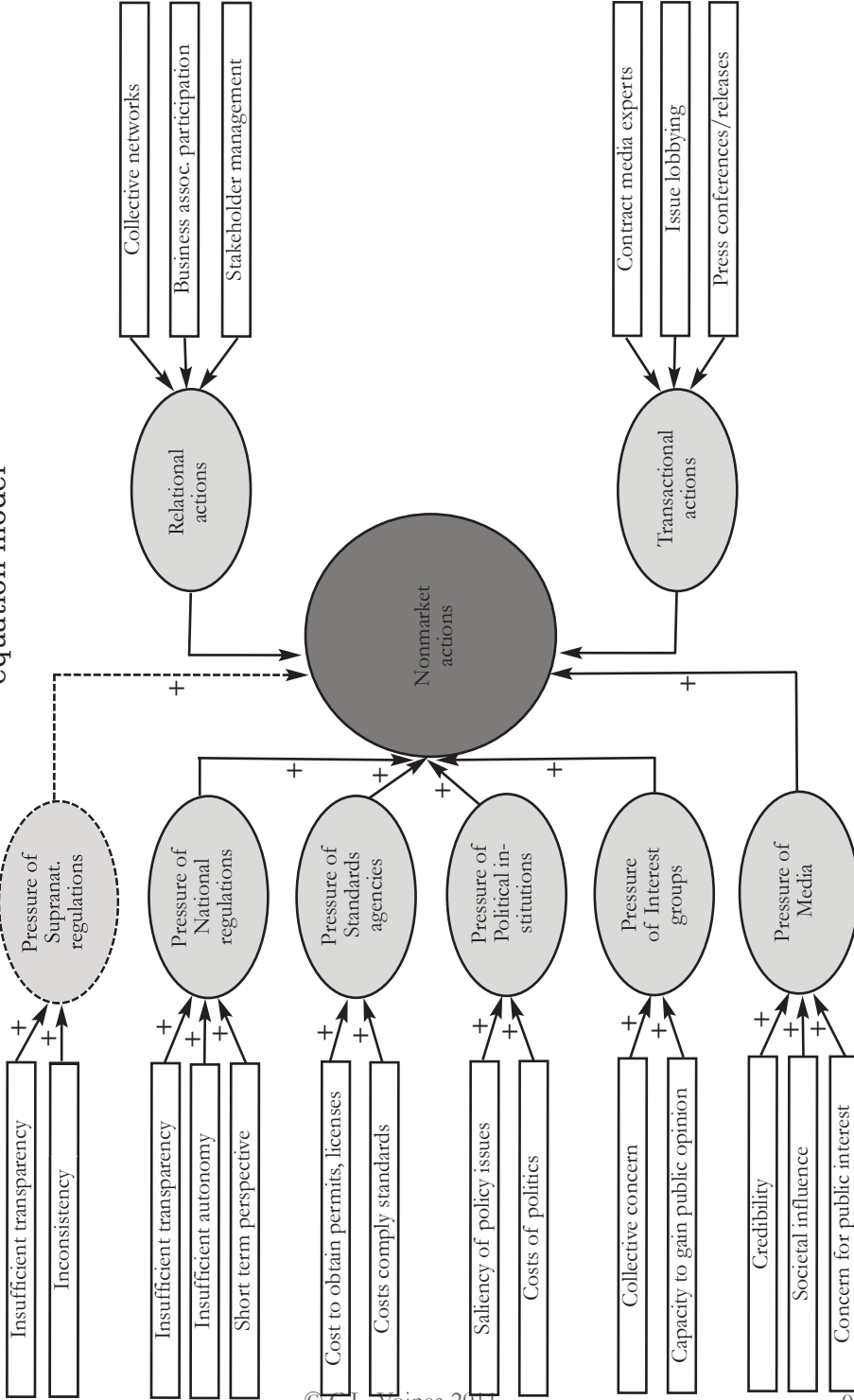
4.4.2. Method

Based on the theoretical discussion, we developed an integrative structural equation model (SEM) which includes: structural model entailing the hypotheses for relations among the latent variables; and measurement model for the not directly observed variables and their relations to empirically measured variables (Bollen, 1989). Hypotheses 1 to 6 describe the relations among latent variables (structural model) as well as each latent variable's manifest indicators (part of the measurement model). Figure 4.1 shows the SEM which comprises of the measurement model for the exogenous variables, namely the six nonmarket institutions, and for the endogenous variable, the frequency of nonmarket actions undertaken by foreign firms; and the structural model showing how the endogenous variable is influenced by the exogenous variables.

Figure 4.1: The theoretically deduced structural equation model

Nonmarket Institutions

Institutional Factors



The endogenous variable frequency of nonmarket actions is posited against institutional pressures from supranational regulators, national regulators, standards agencies, political institutions, interest groups, and the media. The endogenous construct frequency of nonmarket actions has a formative measurement model (cause indicators). When constructing formative models, it has to be accounted for the fact that manifest indicators must cover the entire scope of the related latent variable (Diamantopoulos & Winkelhofer, 2001). Additionally, the number of formative indicators should be relatively low in order to avoid multicollinearity problems. For these reasons, each latent variable in our model is predicted by maximum three formative indicators.

We tested the SEM by using partial least squares (PLS) and the statistical software SmartPLS 2.0. SmartPLS 2.0. allows for the simultaneous assessment of hypotheses and it enables the use of multi-item reflective scales (White et al., 2003). The main reason for using PLS is that our SEM includes formative as well as reflective measurement models which cannot be measured with the conventional covariance structural-approach (Höck & Ringle, 2006). A formative indicator measurement approach does not assume that separate measures of constructs necessarily coincide (correlate). Through PLS the contribution of each indicator to the definition of each construct is specifically determined simultaneously with the testing of the theoretical relationships among constructs (Diamantopoulos & Winkelhofer, 2001; Fornell & Bookstein, 1982; Jarvis et al., 2003). PLS also analyzes moderated relationships using continuous interaction terms by multiplying the indicators of the interacting factors rather than comparing dichotomized groups (Chin, Marcolin, & Newsted, 2003). The use of PLS makes the particular contribution of clarifying the relationships among esoteric constructs, such as frequency of nonmarket actions and institutional factors for each individual institution present in the nonmarket environment (Höck & Ringle, 2006). The measurement of these constructs would not be possible with classical measurement theory. However, to gauge each construct's reliability and validity, every construct (along with its indicators) is embedded in a structure of theoretically essential relationships.

4.4.3. Variables

Endogenous variable: The endogenous variable *frequency of nonmarket actions* represents the number of nonmarket practices or proceedings and how often they are utilized by the firm (Svendsen, 1998). Using a 5-point scale ranging from 'never used', 'rarely', 'regularly', 'very frequently' to 'continuously' we measured

how often and how many nonmarket practices are undertaken by each firm: collective networks (Nahapiet & Ghoshal, 1998; Uzzi, 1997), business associations' participation (Hillman & Hitt, 1999; Keim & Zeithaml, 1986), stakeholder management (Mahon et al., 2004) (relational nonmarket actions); contracting media experts (Jacomet, 2000), issue lobbying (Giroud & Scott-Kennel, 2009), press conferences/ releases (Mahon et al., 2004) (transactional actions). We used both relational nonmarket items (practices) as well as transactional nonmarket items for the operationalization of the concept which is at its commencement stage. As literature lacks in establishing which practices are included in the nonmarket category, we explore the measurement of the concept nonmarket actions by including in its operationalization both nature of items.

Independent variables

The exogenous variable *pressure of national regulators* has a formative measurement model and the items used to measure this variable are: insufficient transparency of rules and regulations; insufficient autonomy of regulatory institutions; and short term perspectives of rules and regulations.

The exogenous variable *pressure of standards agencies* has a formative measurement model and the items used to measure this variable are: costs for obtaining permits, licenses, and authorizations; and costs to comply with standards.

The exogenous variable *pressure of political institutions* has a formative measurement model and the items used to measure this variable are: saliency of political issues; and the costs of political involvement.

The exogenous variable *pressure of interest groups* has a formative measurement model and the items used to measure this variable are: collective concerns; and capacity to gain public opinion.

The exogenous variable *pressure of the media* has a formative measurement model and the items used to measure this variable are: credibility; societal influence; and concern for public interest.

The exogenous variable *pressure of supranational regulators* has a formative measurement model and the items used to measure this variable are: insufficient transparency of rules and regulations; and inconsistency between supranational and national regulations.

Control variables

Industry. The institutional factors specific to national regulators insure the performance of the reforms in the regulated business industries where foreign owned firms operate (Keim & Baysinger, 1988). Regulatory authorities also insure third party control within some industries to avoid or penalize anti-competition

alliances. Consequently, the frequency of nonmarket actions undertaken by foreign firms can differ between industries. Therefore, we control for possible industry effects with control variable *industry dummies* for the three most targeted industries by foreign firms operating in the Netherlands. The three industries are: manufacturing, finance and insurance, and services.

Size. The resources available to deploy for implementing various nonmarket actions vary among foreign firms according to their size (Hillman et al., 2004). Additionally, firms with a large resource and employment base have more assets at risk, reason for which they can be more affected by changes related to legislation, regulations and standards (Masters & Keim, 1985). Moreover, large firms are also interdependent on many stakeholders and institutions (Meznar & Nigh, 1995). The control variable size is measured as the number of employees of each foreign owned firm in the Netherlands.

Host country experience. The experience within the host country and with host institutions and actors is an indication of the networks and social capital available and of the relationships established with various stakeholders. An increased experience within the host country may be a facilitator for implementing certain types of nonmarket actions such as building networks with host actors or cooperations with local and national governments (Hillman & Hitt, 1999; Keim & Baysinger, 1988; Keim & Zeithaml, 1986). Therefore, the host country experience of the foreign firm might relate to the frequency with which the firm develops nonmarket actions. The control variable *host country experience* is measured as the number of years since the foreign owned firm has established its operations in the Netherlands.

4.5. Analysis and results

4.5.1. Evaluation of the measurement model

Prediction oriented measures were used for the assessment of the SEM as well as for the formative and reflective measurement models (Chin, 1998; Diamantopoulos & Winkelhofer, 2001; Höck & Ringle, 2006). The causal and the empirical measurement results are illustrated in Figure 4.2. The central criterion for evaluating the SEM is the rate of reliability R^2 of the latent endogenous variable frequency of nonmarket actions with a value of 0.74 suggesting the robustness of the measurement model. This result indicates that 74.00 percent of the variance of the latent endogenous variable is explained by effects of the latent exogenous variables (pressure of national regulators, pressure of standards agencies, pressure of the media, pressure of interest groups,

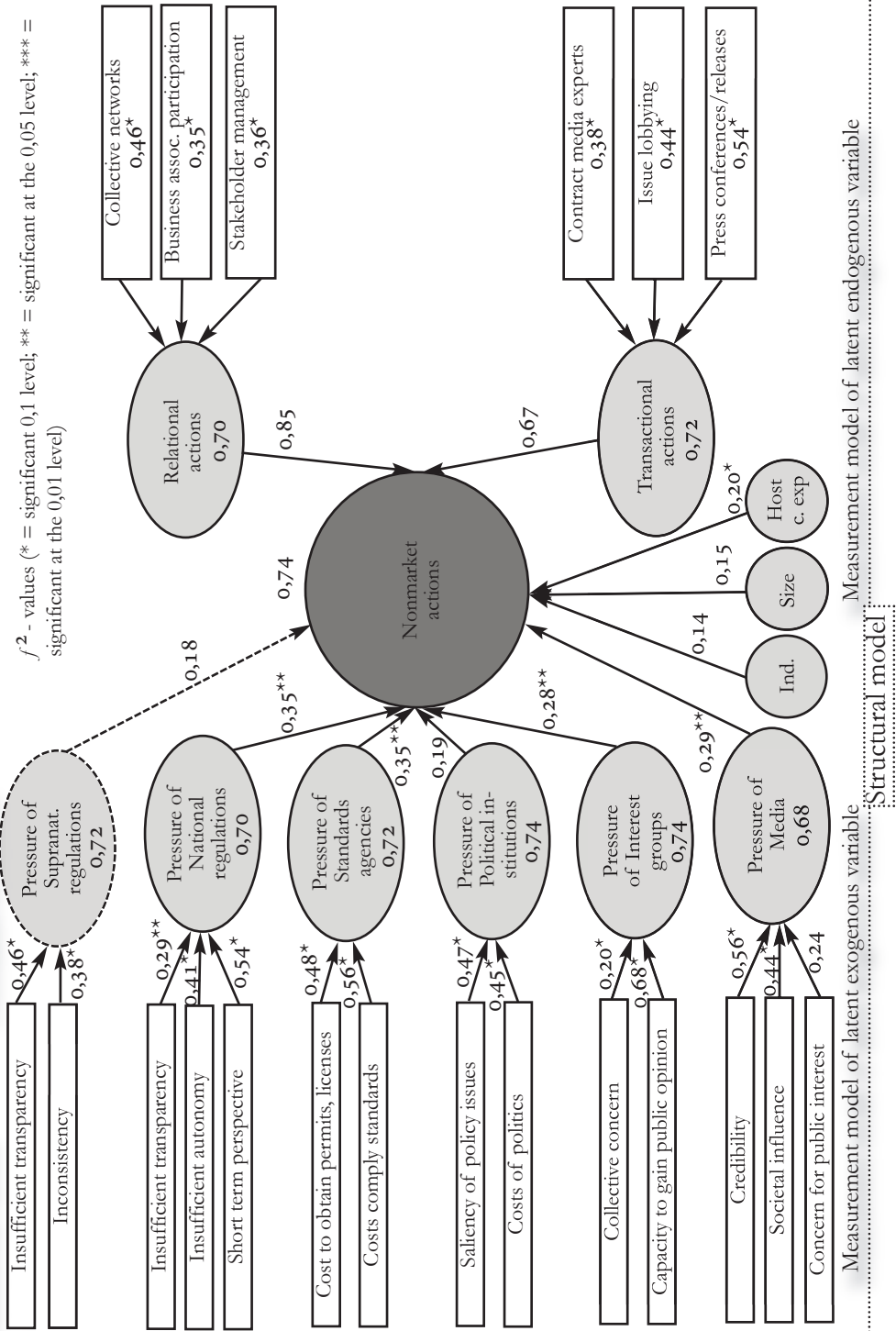
pressure of political institutions and pressure of supranational regulators) with their respective weights. The six latent exogenous variables in our SEM are determined by formative measurement models i.e. their respective factors or items pertaining to each institution that explains its pressure.

Figure 4.2: Empirical results: test of hypothesized relationships

Nonmarket Institutions

.....Institutional Factors

f^2 - values (* = significant 0,1 level; ** = significant at the 0,05 level; *** = significant at the 0,01 level)



The evaluation of the empirical results regarding the formative measurement model reveals that the theoretically deduced manifest variables are very well suited as indicators of the latent variables (Höck & Ringle, 2006; Diamantopoulos & Winkelhofer, 2001). According to Chin (1998) if the evaluation criterion for the manifest variables and measurement model show weight values of 0.02, 0.05, and 0.35, then the latent variables have a small, medium or large effect-size, respectively.

The exogenous variable *pressure of national regulators*: The manifest indicator ‘short-term perspective of rules and regulations’ has the highest explanatory value (weight value 0.54) of the pressure of national regulators, followed by ‘insufficient autonomy of regulatory institutions’ (weight value 0.41) and ‘insufficient transparency of rules and regulations’ (weight value 0.29). The R^2 of the exogenous variable national regulators has a value of 0.70 suggesting the robustness of the measurement model for this variable.

The exogenous variable *pressure of standards agencies*: The manifest indicator ‘costs to comply with imposed standards’ has the highest value (weight 0.56) in explaining the pressure of standards agencies, followed by the manifest indicator ‘costs to obtain permits, licenses, and authorizations’ (weight value 0.48). The R^2 of the exogenous variable pressure of standards agencies has a value of 0.72 showing the robustness of the measurement model for this construct.

The exogenous variable *pressure of political institutions*: The manifest indicators ‘saliency of policy issues’ has the highest value in explaining the pressure of political institutions (weight value 0.47), followed by ‘costs of politics’ (explanatory weight value 0.45). A small explanatory value for the pressure of political institutions is attributed to the manifest indicator ‘competition on the political arena’ (weight 0.19). The R^2 of the exogenous variable pressure of political institutions has a value of 0.74 suggesting that the above manifest indicators represent a good measurement model for this construct.

The exogenous variable *pressure of interest groups*: The manifest indicator ‘capacity to gain public opinion’ has the highest explanatory value (weight 0.68) for the pressure of standards agencies, followed by the indicator ‘collective concerns’ which has a smaller value (weight 0.20) in explaining this influence. The R^2 of the exogenous variable pressure of interest groups has a value of 0.74 indicating the robustness of the measurement model for this construct.

The exogenous variable *pressure of media*: The pressure of the media is explained

by the manifest indicators 'media credibility' with the highest value (weight 0.56), followed next by 'societal influence' (weight 0.44). Additionally, the indicator 'concern for public interest' (weight 0.24) has the smallest explanatory value for this latent construct. The R^2 of the exogenous variable pressure of media has a value of 0.68 suggesting that the above manifest indicators represent a good measurement model for this variable.

The exogenous variable *pressure of supranational regulators*: The manifest variable 'insufficient transparency of supranational rules and regulations' has the highest weight (value of 0.46) in explaining the pressure of supranational regulators. Additionally, the manifest variable 'inconsistency between supranational and national level rules and regulations' is of high relevance as well (weight of 0.38) in explaining the pressure of supranational regulators. The R^2 of the exogenous variable pressure of supranational regulators has a value of 0.72 suggesting that the above manifest indicators represent a good measurement model for this variable.

The endogenous variable frequency of nonmarket actions: The nonmarket actions is a latent variable that can be measured as a construct of the indicators 'relational actions' and 'transactional actions'. As a latent construct, the variable explains the variance of each indicator to a great extent; the increased frequency of nonmarket actions manifest itself through relational actions with a weight of 0.85 as highest explanatory share; and through transactional actions' -weight 0.67, medium explanatory share. The rate of reliability R^2 of the latent endogenous variable frequency of nonmarket actions has a value of 0.74 indicating the robustness of the measurement model. Subsequently, relational actions are explained through the following items: collective networks (weight 0.46), long term interactions with local and national governments (0.36), and business associations' participation (weight 0.35). All three items provide a high contribution in explaining the indicator, while the R^2 value of this indicator (0.70) shows the robustness of the measurement model for relational actions. Furthermore, transactional actions are explained by the following items: ad-hoc interactions with local and national governments (weight 0.54), lobbying (weight 0.44), and contracting media experts (weight 0.38). The above weights offer a high explanatory share for the indicator transactional actions, while the R^2 value of this indicator (0.72) shows the robustness of the measurement model.

When applying PLS, additional measures for the assessment of the measurement model of the endogenous variable are the coefficient of reliability and the average variance extracted. The coefficient of reliability has an empirical value of 0.74

which indicates a high internal consistency of the latent construct bundled indicator-variables (Fornell & Larcker, 1981). The same findings hold for the average variance extracted from the manifest indicators which has a value of 0.76. Since we have only one latent endogenous variable in the SEM, the discriminance validity analysis is not required and the evaluation of its measurement model is completed (Cadogan et al., 1999; Hoyle & Panter, 1999).

4.5.2. Hypothesized relationships

The measurement of both endogenous and exogenous constructs suggests that the data is robust. Furthermore, correlation statistics between the constructs is within acceptable ranges (Farnell & Larcker, 1981). Table 4.1 presents the correlations of constructs along with construct-level measurement statistics. Correlation is very low for most variables, indicating that multicollinearity is not a problem.

Table 4.1. Construct-level measurement statistics and correlation of constructs^{a,b}

Variables	1.	2.	3.	4.	5.	6.	7.	8.	9.	10.
Supranational regulators	0.72									
Interest groups	0.18	0.74								
Media	0.27	0.25	0.68							
National regulators	0.16	0.14	0.79	0.70						
Nonmarket actions	0.18	0.19	0.35	0.58	0.76					
Political institutions	0.24	0.28	0.29	0.39	0.25	0.74				
Standards agencies	0.27	0.23	0.24	0.45	0.23	0.23	0.72			
Industry	0.14	0.34	0.26	0.36	0.21	0.28	0.27	0.20		
Size	0.21	0.19	0.31	0.42	0.34	0.34	0.25	0.27	0.15	
Host country experience	0.24	0.27	0.21	0.27	0.23	0.26	0.34	0.32	0.35	0.25

^a Numbers on the diagonal shown in bold denote the square root of the average variance extracted^b Raw measures mean-centered prior to creating interactions

Further, a test of significance of the interrelations between the manifest and latent variables is also performed through the bootstrapping procedure; results of this procedure are showed in table 4.2 (Bollen & Stine, 1993; Efron & Tibshirani, 1993).

Table 4.2. Results of bootstrapping procedure

Variables	Beta-coefficients	T-values
National regulators	0.35**	2.00
Standards agencies	0.35**	2.02
Political institutions	0.19	1.29
Interest groups	0.28**	1.96
The media	0.39**	1.95
Supranational regulators	0.18	1.28
Supranational regulators→national regulators	0.37**	2.00
Supranational regulators→political institutions	0.38**	2.02
Supranational regulators→standards agencies	0.33*	1.95
Relational actions	0.85**	1.96
Transactional actions	0.67**	1.95

(* = significant 0.1 level; ** = significant at the 0.05 level; *** = significant at the 0.01 level)

This procedure is appropriate to determine the significance of the interrelations between the latent endogenous and the latent exogenous variables (Efron & Tibshirani, 1993). Seeing that the pressure of national regulators has a significant positive effect on the increase in frequency on nonmarket actions (undertaken by foreign owned firms) with a t-value of 2.00 (coefficient 0.35) and its manifest indicators result in a large explanatory value of this pressure, Hypothesis 1 is accepted.

Subsequently, empirical estimates show that the pressure of standards agencies has a significant effect (t-value 2.02; coefficient 0.35) on the increased frequency

of nonmarket actions. Manifest indicators of this variable also have a high value in explaining this positive effect, therefore, Hypothesis 2 is accepted.

However, when analyzing the pressure of political institutions we found no significant effect on the frequency of nonmarket actions undertaken by foreign owned firms (t-value 1.29; coefficient 0.19). Consequently, Hypothesis 3 is rejected.

Furthermore, empirical testing shows significant explanatory value for the pressure of interest groups and its positive relationship with the frequency of nonmarket actions (t-value 1.98; coefficient 0.28). This pressure is determined by the predicted manifest indicators and accordingly, Hypothesis 4 is accepted. The final institutional pressures predicted to explain the frequency of nonmarket actions is the media. Its manifest variables and results show that the pressure of media has a significant explanatory value for the increased frequency of nonmarket actions (t-value 1.95; coefficient 0.29). Therefore, Hypothesis 5 is accepted.

Empirical results related to the pressure of supranational regulators show no significant contribution of this variable in explaining the frequency of nonmarket actions, therefore Hypothesis 6 is rejected (t-value 1.28; coefficient 0.18). Thus, foreign owned firms do not increase their frequency of nonmarket actions as a direct result of (or to respond to) pressures from supranational regulators. Furthermore, inter-institutional weights between the pressure of supranational regulators and pressure of national level institutions (Hypothesis 7) were also calculated. The pressure of supranational regulators through to its manifest indicators show a high explanatory value for the effects on national regulators (weight of 0.37), on political institutions (weight of 0.38) and on the standards agencies in the host country (weight of 0.33), leading us to accept Hypothesis 7.

With regard to the control variables, host country experience (weight 0.20) points to the fact that the amount of years the foreign firms operated in the host setting has a medium explanatory share for the increase in frequency of nonmarket actions. Moreover, size and the industry in which the foreign owned firm operates (weight 0.15 and respectively 0.14) have a very low explanatory share for an increase in the frequency of such actions.

In sum, an increase in the frequency of nonmarket actions can be explained by positive effects/ influences from pressure of national regulators and of standards agencies with an equal weight of 0.35 as the largest explanatory share); positive

effects of the pressure of media and of interest groups have a slightly lower weight of 0.29 and 0.28 respectively, while pressure of political institutions and of supranational regulators (weight of 0.18 and correspondingly 0.19) makes the smallest contribution to explaining frequency of nonmarket actions. Furthermore, pressures from supranational regulators show a high explanatory value for the effects on national regulators (weight of 0.37), on political institutions (weight of 0.38) and on the standards agencies in the host country (weight of 0.33). The robustness of the SEM reveals that the estimates of model parameters are good and that the hypothesized relationships fit the data well, supporting the soundness of the proposed model of the effect of nonmarket institutional pressures on the frequency of nonmarket actions.

4.6. Discussion

Our research goal was to explore the pressure of nonmarket institutions and institutional factors on the increase of nonmarket actions undertaken by foreign owned firms in a host integrated economy. Based on institutional, international business and corporate political strategy literature, we identified six nonmarket institutions (national regulators, supranational regulators, standards agencies, political institutions, interest groups and the media) and specific factors pertaining to each institution likely contribute to an increase in the frequency of nonmarket actions.

Empirical results confirmed five of the hypothesized relationships and also captured interesting effects between national and supranational level institutions. The pressure of national regulators provides a high explanatory contribution to the increase in nonmarket actions through the insufficient transparency of rules and regulations, insufficient autonomy, and a short term perspective of their regulatory processes. Due to such factors foreign owned firms increase the frequency of both relational and transactional nonmarket actions. This is consistent with Kanter (1999) and North (1990) who delegate that national regulators normalize business activities and commonly enforce standards and safety. The pressure of standards agencies also increases the frequency of nonmarket actions, increase determined by the costs to obtain permits, licenses, and authorizations and costs to comply with imposed standards. In the Netherlands a vast array of required permits and licenses restricts and sets boundaries for business practices and activities. When these costs seem groundless and unnecessarily too high, firms increase the frequency of their nonmarket actions (relational and transactional) in the attempt to decrease these

redundant costs. In line with Ogus (2002), various nonmarket actions such as constituency building, lobbying and press conferences can decrease redundant expenditure made with certain new imposed standards.

Furthermore, empirical results show no significant effects of pressure of political institutions and explanatory factors (competition on political arena, issue saliency and elevated costs of politics) on the nonmarket (political) actions. This is explained through one of the characteristics of the host environment, namely that in the Netherlands political involvement on behalf of (foreign) firms is not common practice, nor policy issues agendas are easily set by businesses (Kate, 1994). Interest groups also leave their prints on the business sector by shaping business processes and outcomes with various purposes ranging from investing in a safe future and social community to preserving the environment. The pressure of these particular groups (through an increased collective concern and high capacity to gain public opinion) makes foreign firms aware of harmful consequences of certain business practices. Accordingly, these firms increase their nonmarket actions to monitor business functions towards augmented accountability within society en route for building responsible reputations (Baron & Diermeier, 2007).

The media pressures also determine an increase in the nonmarket actions of foreign owned firms. This increase is caused by the media's high credibility, strong societal influence, and concern for the public. Foreign firms are either affected by these factors or try to use them to build stronger reputations and legitimacy in the host setting. The media can make or break the image of a company in front of the public opinion because it empowers the public with regard to social duty, sustainable growth and various firms' positions on these matters (Schaffer & Hillman, 2000). As a result companies increase their nonmarket (relational) actions with respect to this stakeholder (Miles & Snow, 1978). Pressures from supranational regulators do not directly contribute to the increase in nonmarket actions, but they influence national regulators, standards agencies and political institutions. A possible justification can be found in the fact that, due to the multi-level governance, supranational regulators establish directives for the national level institutions while also allowing for a certain degree of flexibility and national variance. This substantiates that supranational regulators influence to a certain extent the other institutions (Smith, 1997). To explain such result we also employ arguments related to the specificity of the host setting, the Netherlands. A vast part of rules, regulations, directives and policy making is established by supranational (EU) regulators and members states have to incorporate these to a great extent.

4.7. Conclusions

This chapter explores the relation and sources of variation in the strength of institutional pressures and the frequency of organizational responses to deal with these pressures. This paper contributes to the discussion of plausible explanations for why firms decide to adopt nonmarket actions. Just as pressures from market institutions trigger organizations to undertake various market actions/ responses (Cheng & Kesner, 1997), the current research explored the relationship between nonmarket institutional pressures and the nonmarket actions or responses to manage these pressures. Nonmarket actions entail practices or proceedings utilized to cope with national regulatory institutions, supranational regulators, political institutions, standards agencies, interest groups and the media (Svendsen, 1998). Empirical evidence shows that the increase in nonmarket actions can be explained by specific institutional factors as follows: national regulators (due to insufficient transparency of rules and regulations, insufficient autonomy, and a short term perspective of regulatory processes), standards agencies (due to costs to obtain permits, licenses, and authorizations, costs to comply with standards), interest groups (due to increased collective concerns and high capacity to gain public opinion), and the media (due to high credibility and societal influence and increased concern for public interest).

We advance the field beyond simple presumptions of nonmarket scattered actions by pinning down the institutional determinants of such actions. By applying institutional, corporate political and international business theory to nonmarket context, we have developed an integrative framework of nonmarket institutional factors which explain why firms undertake nonmarket actions. Accordingly, we contribute to the existing nonmarket strategy literature by incorporating institutional players other than the legislature into the analysis, and by addressing the question of how foreign firms manage the different influences of these actors. Regulatory risk can habitually be handled by domestic firms since, unlike foreign owned firms, they typically know how to manage the vagaries of local regulatory custom and practice (Stern, 1997). Our study elucidates foreign firms' managerial proceedings by clarifying which are the most relevant institutions that can exercise certain regulatory, political, or social pressures on their business activities. Context and level specific influences should be considered when making strategic choices regarding host institutional environment especially if the aim is to develop social capital, establish networks, and increase responsiveness to the host country; or become embedded in the host country business setting (Collins & Porras, 1994; Yoffie and Bergenstein, 1985; Shaver, 1998).

The discussion over the present research cannot be completed without considering its limitations. Although we test hypotheses nested in a quite inclusive model, our study is still exploratory in nature particularly with regard to the development of the notion of nonmarket actions. Formative indicators allow for glimpses at initial statements about the relative importance of the indicators forming the constructs. Our results lay significant ground work for future investigations, more deterministic procedures and analyses of similar data. Employing formative indicators assumes that all pertinent and germane facets are integrated. However, completeness of indicator inventory is a goal always sought, but never really achieved (Chandler & Graham, 2010). This study yields a rich scan of the external nonmarket institutional environment in which foreign firms operate. Our nonmarket institutional framework (SEM) considers the collection of institutions pertaining to the national and supranational levels triggering nonmarket actions. A comparative study conducted in a different research setting would possibly expand the range of institutions and factors and increase the spectrum of actions and tools which firms can utilize in the nonmarket context. Future research might also deem appropriate a mixed nonmarket-economic model which simultaneously includes economic along with non-economic determinants. The interplay between the market and nonmarket span would help both scholars and managers to extend state of mind beyond the traditional market strategies and advance a new breed which incorporates a wide range of constituents and relevant party delegated actions. Since the literature makes a clear distinction between internal and external stakeholders, we argue that nonmarket institutions can be regarded as the nonmarket stakeholders (Freeman, 1984). The literature stream that sustains the benefits of a stakeholder mindset, also raises the awareness that academic theory grows out of the management practice rather than vice-versa (Collins & Porras, 1994). More specifically, in practice foreign firms do need to cope with a variety of pressures, albeit host government interventions, policy makers, interest groups, or the media through various nonmarket actions that reduce their exposure in the host country and improves their strategic capabilities and management (Bonardi et al., 2006; Mezias, 2002; Miller & Richards, 2002). Such institutions cause numerous implications that are not related to the market arena but do influence firm's market performance.

CHAPTER 5

NONMARKET STRATEGIES OF FOREIGN OWNED FIRMS IN A SMALL OPEN ECONOMY³

This chapter explores the types of nonmarket strategies and characteristics of foreign owned firms in a small, open and regionally integrated host economy. As most comprehensive and inclusive nonmarket strategies we propose two particular forms, namely foreseeing strategy and subsequent strategy. Based on institutional, international business and corporate political strategy literature, we have identified the most important firm's level determinants and resources which are most likely to affect the predilection for implementing a specific form of nonmarket strategy. Evidence is provided by a survey sample of 160 foreign owned firms operating in the Netherlands. The results show that large foreign owned firms with a market focus on the host economy are more inclined to implement a foreseeing nonmarket strategy, while firms with a regional headquarters function and low host country experience prefer more to implement a subsequent nonmarket strategy in the host environment. Empirical outcome also indicates that foreign firms with a corporate parent that has established other subsidiaries within the host country prefer to implement foreseeing nonmarket strategies.

³ We would like to express our gratitude to the scholars who provided valuable feedback and discussions during the presentation of this study at the following conferences:

- European Academy of International Business Annual Meeting, Porto, Portugal, December 9-11, 2010.
- Academy of International Business Annual Meeting, Nagoya, Japan, June 24-28, 2011.

5.1. Introduction

Foreign owned firms operating in host environments augment their exposure and vulnerability to nonmarket uncertainties and pressures (Miller, 1991; Dean & Brown, 1995). Regardless of the sources of these qualms and pressures, albeit host government interventions, policy makers, interest groups, or the media, they amplify the competitive disadvantages (or liability of foreignness) faced by foreign owned firms vis-à-vis indigenous firms (Hymer, 1976; Zaheer, 2002; Miller & Richards, 2002). These disadvantages can even cause foreign owned firms to under-perform domestic firms (Miller & Richards, 2002) due to wide range of unfamiliarity costs vis-à-vis economic, social, legal, and cultural host related issues (Hennart, 1982; Buckley & Casson, 1976). Therefore, foreign owned firms should go beyond formulating host market strategies and thoroughly consider complementary strategies to encounter complex influences outside the market, to reduce the liability of foreignness and to increase their competitive position in the host environment (Baron, 1995a; Bonardi et al., 2006; Hillman & Hitt, 1999; Prakash, 2002). These strategies entail actions carried out in public arenas (Baron, 1995; Schaffer & Hillman, 2000) to encounter influences from various institutions, national or supranational, such as interest groups, political institutions, the media, regulatory institutions, standards agencies, which all constitute the nonmarket business environment. Nonmarket exchange mechanisms are necessary for improving the efficiency of market exchange mechanisms. Market exchange mechanisms are plagued by information asymmetry, property rights, bargaining and other problems, all conflicting the basic assumptions of neoclassical economics (Boddewyn, 2003). Foreign own firms can develop foreseeing nonmarket strategies that are long term oriented and create a certain in-depth base within the host setting meant to avoid or decrease nonmarket influences on their activities. However, firms can also develop and implement a subsequent nonmarket strategy to deal with nonmarket actors and issues in the host country. This type of strategy is based on mainly event-specificity and temporary actions. The preference for the type of nonmarket strategy to create in-depth relation networks within the host institutional setting or just sporadic and ad-hoc collaborations with various host institutions depends on foreign owned firm's characteristics, their internal resources and previous international experience.

To date the few studies on nonmarket strategies merely enumerate an inventory of different actions to be used in diverse situations. Scholars emphasize the need to understand the dynamics and determinants behind nonmarket strategic implementation (Bonardi & Keim, 2005; Boddewyn & Brewer, 1994; Getz, 1997;

Hillman & Hitt, 1999; Hillman, 2003). Diverse determinants of such strategies are proposed in a number of studies, nonetheless barely any have been empirically tested (e.g. Hillman & Hitt, 1999; Baron, 1995a; Boddewyn & Brewer, 1994). The field has focused on large countries, such as United States, where different nonmarket strategies are expected to be used and are considered ethically appropriate than in small open economies members of supranational entities (Getz, 1997). Therefore, this study will focus on the nonmarket behavior of foreign owned firms in a small open economy. We investigate the type of nonmarket strategies implemented by foreign owned firms in the small open economy of the Netherlands depending on their characteristics. The Netherlands represents the fifth largest recipient of foreign investment in the world and, due to its favorable location and active role within the European Union many multinational enterprises (MNEs) have chosen the Netherlands as strategic orientation. This host setting becomes a suitable and worthy example of a host economy belonging to a larger supranational entity in which to investigate the nonmarket activities of foreign companies. Data on the foreign owned firms were obtained through a questionnaire survey. The evidence shows that the implementation of a certain type of nonmarket strategy by foreign owned firms depends on idiosyncratic features of these firms.

The structure of this study is as follows. Section 2 provides an extensive literature review highlighting the complex nature of two main types of nonmarket strategies. Section 3 elaborates the idiosyncratic features and the nonmarket strategy types and states our hypotheses. Section 4 presents the sample, data sources and operationalization of the variables to test the hypotheses. Empirical results are presented next, followed by the final section which discusses the contribution of our work and implications for practice.

5.2. Nonmarket strategies

One manner through which foreign owned firms can deal with the nonmarket complexity of a host environment entails interacting with host institutions and actors, building long term relationship networks, shaping the nonmarket host environment, playing an active role in policy, regulation formation and implementation. These so called foreseeing actions of foreign owned firms enable these firms to preview certain influences before taking place and diminish their impact on the company's business activities; they are long term oriented and create a certain in-depth base within the host setting meant to avoid or decrease nonmarket influences on their activities. Firms employing foreseeing

actions have clearly defined and specific nonmarket objectives (Hillman & Hitt, 1999) translated into minimizing uncertainty risks and exercising control over host regulatory, politically and socially related (nonmarket) processes (Mahon et al., 2004). These objectives along with the fact that foreign owned firms become actively involved in regulatory processes of the host environment and place policy issues on political agendas by affecting their saliency, distinguish nonmarket strategies from subsidiary legitimacy actions. Nonmarket objectives overarch achieving legitimacy in the host context by influencing regulatory outcomes and striking for favorable policies. Foreign owned firms acquire knowledge by hiring experts for specific cultural manners of collaborating with host institutions, with interest groups with strong influence power in the host country, and media institutions. They investigate which are the most potential business group associations for suitable future co-operations. Through such types of principally process-focused and continuous actions they become embedded into the host environment and decrease their burden or liability of foreignness. Surprises coming from the institutional and overall nonmarket environment are minimized by using early warning systems preventing potential harmful events from becoming widely salient (Holburn & Van den Bergh, 2004).

These strategies are mutually macro oriented generally targeting the host environment, regulation policy outcomes or reputation building amongst the host institutions. However, foreseeing tactics are also micro sloping aimed at building relationship networks and social capital. Generally, the resources needed to influence a nonmarket issue arisen from the host environment affecting the firms' operations are already in place when these firms implement foreseeing strategies (Hillman & Hitt, 1999; Uzzi, 1997). Thus, foreseeing strategies also lead to the development of social capital; it is considered to be the sum of the actual and potential resources embedded within and available through the network of relationships of firms with various institutions, contacts or groups (Nahapiet & Ghoshal, 1998). This social capital is considered to be a valuable and scarce resource which brings advantages over other institutional arrangements, such as markets (Nahapiet & Ghoshal, 1998). Social capital is a tacit resource and it cannot easily be traded, therefore, it cannot be offered by hierarchical mechanisms or markets (Luo, 2001; Uzzi, 1997). It is a scarce resource which is not readily available to every foreign owned firm but it is an embedded outcome of relationship networks developed as part of foreseeing strategies. Foreign firms undertake a relational approach to the host nonmarket environment and maximize associations with other host actors; they insure trust, information transfer and joint problem-solving arrangements (Hillman & Hitt, 1999; Keim & Baysinger, 1988; Keim & Zeithaml, 1986). Inter-organizational collaboration

has been linked to a range of important outcomes for collaborating organizations. The strategy literature emphasizes the way in which collaboration between organizations results in the sharing of critical resources and facilitates knowledge transfer. The learning literature argues that collaboration not only transfers existing knowledge among organizations, but also facilitates the creation of new knowledge and produce synergistic solutions (Hardy et al., 2003).

Reputable reputation is built through repeated relations with professional nonmarket actors (especially public decision makers and the media) who will eventually conclude that the firm is (or is not) politically credible, dangerous, legitimate, trustworthy, etc. This idea is very briefly mentioned by Jacomet (2000). Through implementing foreseeing strategies with long term perspective and aimed at building relations between actors, issues, contacts and stakeholders in the host environment, foreign firms are able to create a certain reputation which would avoid becoming targeted by nonmarket actors (media, interest groups) (Baron & Diermeier, 2007). The appease of critical actors, the stimulation of long term cooperation, and the anticipation of future relationships with various nonmarket actors of a host setting are all process-focused and continuous practices. Likewise, lobbying serves the purpose of positioning the company mission and image among the issues relevant to the host setting, interest groups, the media and regulators, contributing to reputation building. Moreover, lobbying with network partners for a beneficial policy outcome find its average place amongst foreseeing actions (Giroud & Scott-Kennel, 2009).

While host governments try to maximize the rents captured from foreign owned firms, bargaining (conflictual and partnership) allow these firms to mitigate host governmental benefits (Baysinger, 1984). Through bargaining the interactions between host governments and firms shift from merely transactions towards continuous relations and cooperation, interdependence and trust (Boddewyn & Brewer, 1994; Hillman & Hitt, 1999; Hillman et al., 2004).

Another way for foreign owned firms to cope with the complexity of nonmarket influences in the host environment is through subsequent strategies. They entail that companies act in an ad-hoc manner and remain passive until a nonmarket issue becomes salient. They do not directly participate in the public policy or regulation processes and 'make no attempt to play a role in policy formation or implementation' (Hillman & Hitt, 1999, p.827). This type of strategy implies that foreign firms show nonmarket behavior after the new legislation or nonmarket change has occurred in the host market.

Foreign firms which follow a subsequent strategy do not undertake any action and/or plan until a nonmarket issue in the host environment arises and its effects become noticeable. At this point they acknowledge it and design specific actions to encounter these issues (Hillman & Hitt, 1999). Issue- or event- specificity and ad-hoc actions are the most relevant features of subsequent strategies (Kobrin, 1982). They initiate relatively short-term interactions and relations on an issue-by-issue basis (Kaufmann, 1998). The substance of these interactions, more specifically the nonmarket issue is of key importance and relevance for subsequent behavior. The relationships and interactions developed by foreign owned firms through subsequent strategy are of non-repeated nature; reciprocity between exchange partners is not possible which leads to self-interest motivated actions (Uzzi, 1997). These actions are sporadic, temporary, and subject- specific. Once the nonmarket issue is solved or its importance has decreased for the firm, the relationships no longer exist (Keim, 1991; Kiewert & McCubbins, 1991).

Foreign firms applying subsequent strategies comply or are satisfied with the requirements or incentives offered by the host government; they exhibit a sort of buffering behavior to minimize the impact on their operations (Boddewyn & Brewer, 1994). These firms act in accordance with the requirements or changes imposed by the nonmarket host environment adapting their expectations (Meznar & Nigh, 1995; Coen & Doyle, 2002). They pursue a transactional approach to the host nonmarket environment awaiting the development of a significant public policy issue before building a strategy to cope with this issue (Hillman & Hitt, 1999). Furthermore, firms could also practice a temporary grassroots mobilization of employees, suppliers, customers, advocacy advertising, public relations, press conferences and political educational programs. The resources and actors are immobilized provisionally to deal with a certain event or target (Hillman & Hitt, 1999). Consequently, firms will identify, educate and motivate action groups or stakeholders that may be affected by same policies that also affect the firm (Hillman & Hitt, 1999; Keim & Zeithaml, 1986). Moreover, peripheral costs in the forms of campaign contributions, various donations or other honoraria have final expectations for policy choices that are advantageous for the firm itself (Hillman & Hitt, 1999). Other peripheral costs are caused by hiring individuals with host government experience, company members with a political position in host governmental bodies or other sorts of contributions outside the market spam (Benton & Daly, 1991). Nonetheless, such actions are regarded as ethically inappropriate in most (West-European) nonmarket environments.

5.3. Firm characteristics and nonmarket strategies

While it is widely understood that in the current business environment foreign owned firms should go beyond formulating host market strategies and thoroughly consider a complementary sort of stratagems to encounter complex influences outside the host market space, there has been very little research that looks explicitly at the type of nonmarket strategy followed by foreign owned firms in a host economy and the determinants or resources associated to these strategies. The preference for implementing certain tactics is mainly determined by firm characteristics, their internal resources, experience with the host institutions, and the differences between their home and host settings (Boddeyn & Brewer, 1994; Getz, 1997).

Mobilizing specific resources and skills outside the market space was mentioned by Mahon et al. (2004) with reference to corporate political capabilities. Wilson (1980) cited that any resource can be converted into power usable in the political and nonmarket environment. Yoffie and Bergenstein (1985) spoke of the accumulation by the firm of a 'political capital'. While Oberman (1993) favored the term 'institutional resources' to describe political resources, Boddeyn (2000) uses the term 'nonmarket resources' in a broader sense than Baron's (1995) 'nonmarket assets'.

Host governments and institutions can have a direct or indirect impact on FOFs' profitability, for example with the passage of legislation limiting domestic or foreign entry by competitors into a market place, with agency rulings on final rates in regulated industries or on the protection of intellectual property, or with judicial decisions in litigated disputes (Holburn & van den Bergh, 2004). Thus, the differences amongst the home countries and what is relevant to the host economy can also determine the type of nonmarket strategy by means of liability of foreignness issues (Zaheer, 1995).

A number of empirical studies have attempted to identify, with mixed success, a relationship between various determinants and political strategies (Hillman & Hitt, 1999; Wan & Hillman, 2006). Drawing on previous theoretical and empirical research, this section explores the possible relationships of the type of nonmarket strategy developed and implemented by the foreign owned forms and their idiosyncratic features and resources.

5.3.1. Size

A strong held perspective in the literature indicates that firms' size plays an important role in their strategic nonmarket behavior or tactics (Hillman et al., 2004). Foreign owned firms with a large resource and employment base have more assets at risk, reason for which they are more affected by nonmarket issues and changes in the host environment. Accordingly, they can benefit or lose to a greater extent from changes related to legislation, regulations and standards (Masters & Keim, 1985). Consistently, Bhuyan (2000) designates that large firms would gain more from beneficial regulation than small and medium sized firms, which often chose to free ride on the expense of large corporations. Moreover, large firms are interdependent on many stakeholders and nonmarket institutions (Meznar & Nigh, 1995). They are motivated to develop and maintain long term relations and networks with these stakeholders to solidify trust and reputation; relations build as part of foreseeing strategies. Furthermore, large firms enjoy a higher visibility in the host setting and due to this exposure they are more vulnerable to the power of the government, media and other nonmarket related actors (Getz, 1997). 'The larger a firm becomes, the more likely it is to catch the public's eye' (Meznar & Nigh, 1995; p. 980).

Even though size seems to impact nonmarket actions taken, no endeavor indicates whether large foreign owned firms prefer foreseeing or subsequent nonmarket strategies. A possible relation can be found in the rationale of the organizational resources firms have at their disposal: large-sized firms have more resources than medium sized firms (Hillman et al., 2004). Companies with more resources to spent, more employees to assign have more possibilities for continuous and long term involvement in the nonmarket arena (Bhuyan, 2000). They also have to consider nonmarket issues related to host governments or interest groups (such as labor unions) regarding the provisions for their employees. It becomes relevant for them to develop relationships with stakeholders, since the employment base presents a larger and more crucial part of a firm's daily activity; consequently they are more likely to pursue foreseeing nonmarket strategies. Therefore, we formulate the following hypothesis:

Hypothesis 1: The larger the size of the foreign owned firm, the higher the likelihood that it will follow foreseeing nonmarket strategies rather than subsequent ones.

5.3.2. Host country experience

The experience of a foreign owned firm in the host country may also determine its strategy and practices within nonmarket contexts through liability of foreignness (Hillman & Hitt, 1999; Getz, 1997; Boddewyn & Brewer, 1994; Murtha & Lenway, 1994; Baron, 1995). More than often, the experience of a foreign firm in the host country is as a proxy for the knowledge accumulated, and the reputation and credibility it has build in the host setting (social capital) (Hillman et al, 2004; Boddewyn & Brewer, 1994; Hillman & Hitt, 1999; Hillman, 2003). Liability of foreignness (competitive disadvantage) can arise from the firm lack of experience and unfamiliarity with the local environment; the lack of roots, legitimacy and reputation in this setting. The implications caused by liability of foreignness of foreign owned companies for the nonmarket context and the strategic choices to deal with it, vary by firm, industry, host country and home country (Zaheer, 1995).

Additionally, credible reputations are intrinsic to social capital, the tacit resource attained through network building. A limited experience within host country creates prospects and incentives to acquire knowledge and social capital (Hillman, 2003). Hogenbirk and van Kranenburg (2006) confirm that less experienced firms have stronger incentives to build solid reputations, credibility and establish themselves in the host country. Newly established firms with very limited host experience have to become among others locally responsive. Local responsiveness entails having knowledge about the host political, social, cultural sets; thus, the nonmarket host setting (Uzzi, 1997). Therefore, they channelize their capabilities on creating in-depth relations with policy decision makers and other nonmarket related actors, on getting involved in nonmarket processes and relationship networks which embed social capital (Luo, 1999). Consequently, we expect that the foreign owned firms with low experience in the host country implement foreseeing nonmarket strategies. Furthermore, we argue that host country experience is related to foreseeing strategy as the time spend in the host economy is associated to the intensity and embeddedness of network relationships (Giroud & Scott-Kennel, 2009). Therefore, we formulate the following hypothesis:

Hypothesis 2: The lower the experience of the foreign owned firm with the host country, the higher the likelihood that it will implement foreseeing nonmarket strategies rather than subsequent ones.

5.3.3. Market scope

Market scope is another firm characteristic which has essential influence on the approach to nonmarket strategy (Hillman & Hitt, 1999; Marx, 1990). The market scope dictates whether the firm is focused on a single country or on multiple markets which entails the specificity and spam of the nonmarket strategy implemented. A broad market scope allows firms to exploit opportunities on multiple markets; however, they have to manage a complex range of nonmarket

issues and actors dispersed in these multiple markets or countries (Jones & Hill, 1988). Navigating these myriad contexts as well as attempting to shape their public policy outcomes leads to a complex and diverse nonmarket portfolio which poses additional challenges for the foreign owned firms (Wan & Hillma, 2006). Firms will deal with this large assortment of actors and issues as they develop through time and when the necessity arises (Marx, 1990). They use constituency building and momentary mobilize employees, suppliers; temporary become allies of groups and stakeholders with shared policy interests (Hillman & Hitt, 1999); or use press conferences when a nonmarket issue becomes important; overall, they provisionally manage the nonmarket issue (Keim & Zeithaml, 1986). These potential (subsequent) actions will be taken when and if a certain nonmarket issue becomes relevant for the firm (Kobrin, 1982). Therefore, the policy of event-specificity and temporary actions (only when needed) seems more likely to be adopted (Wan & Hillman, 2006).

However, foreign owned firms with narrower market scopes should mainly focus on the acquisition of knowledge about and how to deal with a single nonmarket host setting. They have to focus on a relatively smaller set of nonmarket issues and actors. This set of nonmarket issues, actors and institutions is less diverse; therefore, it is easier for these firms to mobilize resources and stratagems to tackle them (Baron, 1995). Furthermore, the activities of these firms are strongly depending on the institutional system or low spectrum of nonmarket actors in the host country. Consequently, this raises the awareness of foreign owned firms for a clearly established plan of action which would minimize potential risks and threats coming from the host country setting (Schaffer & Hillman, 2000). This action plan may involve self-regulation or an internal system of prevention to insure sound business practices. Moreover, these firms can develop and refine a strong bargaining technique, hire external experts, or employees with political expertise who would craft and use this bargaining technique to negotiate with governments or other nonmarket institutions in the host country (Boddewyn & Brewer, 1994). Such foreseeing deeds enable foreign firms to decrease their liability and to maximize protection against the multitude of nonmarket actors and issues which may arise across the narrow market scope.

Thus, for the foreign firms with a scope on the host country market, the set of nonmarket issues, actors, the potential risks and threats coming from the low nonmarket spectrum can easily be reduced by adopting a foreseeing nonmarket strategy in the host country. However, firms with a broad market scope have to manage the increased range of issues and threats which may arise from the broad spectrum of nonmarket settings; consequently they are more likely to opt for a policy of event-specificity and temporary nonmarket strategy to deal with the complexity of actors and nonmarket issues in the multiple host settings. Therefore, we formulate the following hypothesis:

Hypothesis 3: The broader the market scope of the foreign own firm, the higher the likelihood that it will follow subsequent nonmarket strategies rather than foreseeing ones.

5.3.4. Regional headquarters function

The regional headquarters function of a foreign owned firm establishes the variety and complexity of nonmarket actors and issues that its strategy has to target or deal with. For many regional headquarters activities of a firm there corresponds a different set of nonmarket actors, institutions and issues which set standards and regulate the specific segment of that activity. Foreign owned firms with a regional headquarters function in the host country have diverse market and nonmarket domains of interest, policy implications and issues that they have to manage (Bhuyan, 2000). They need to interact with nonmarket actors on various production rules and regulations, marketing violations and labor arrangements (nonmarket issues) since they presumably perform multiple activities (Birkinshaw & Hood, 1998). It becomes difficult to thoroughly consider and assign actions meant to manage all the nonmarket domains. For this reason, they are likely to merely respond to these issues each time it is needed by momentarily mobilizing resources and actions. This subsequent way is mostly suited for managing the complexity and diversity of the various nonmarket segments.

However, foreign owned firms with no regional headquarters function interact with nonmarket actors related to only a few interest domains. They are able to develop in-depth relations with this limited number of decision makers specific to those domains involved with their scope (Birkinshaw & Morrison, 1995). The foreign owned companies with no regional headquarters function can only focus on the limited nonmarket areas and issues in the host country. Therefore, it is easier for these firms to maintain continuous relations with this limited multitude

of nonmarket related actors. Consequently, their way to manage the nonmarket actors and issues in the host country is a function principally process-focused and operates on continuous basis, assigning to foreseeing behavior. Therefore, we advance amid the following hypothesis:

Hypothesis 4: Foreign owned firms with a regional headquarters function in a host environment are more inclined to implement subsequent nonmarket strategies rather than foreseeing ones.

5.3.5. Autonomy degree

Many studies refer to the autonomy of the foreign owned firms from the headquarters and its relationship to local responsiveness (Birkinshaw & Morrison, 1995; Benito et al., 2003; Taggart, 1997). Specific to the nonmarket field it becomes investigating how much autonomy do foreign owned firms have to develop nonmarket strategies and whether this autonomy would lead to preferences for a particular type of strategy. Foreign owned firms granted high autonomy from the headquarters are more responsive to the local host environment among which we distinguish its nonmarket aspects (Ferner et al., 2004). They are better coping with unexpected difficulties and seize increased benefits from opportunities (Taggart, 1997; Bartlett & Ghoshal, 1986). The headquarters sets the corporate objectives on which foreign firms with high autonomy have freedom to establish their specific course of action to achieve these objectives in the host context (Taggart, 1997).

However, Shaffer and Hillman (2000) found evidence that only related foreign owned firms pursue a centralized public policy strategy, whereas unrelated firms often pursue decentralized manners of encountering nonmarket issues (Vachani, 1999). Firms with decentralized relationships with the headquarters are granted the autonomy to respond to nonmarket issues in their own best way (Edwards et al., 2002). The headquarters cannot oversee nor have a 'ready-to-use' design choice (recipe) for the strategy needed to deal with the different unrelated nonmarket spectrum (where each of its firms operates). Firms with restricted autonomy develop only limited local responsiveness within host nonmarket environments (Benito et al., 2003; Ferner et al., 2004). Therefore, we expect foreign owned firms granted high autonomy degree from decentralized headquarters to pursue foreseeing nonmarket strategies compared to the firms which are centrally controlled. Though tentative, the following hypothesis can be formulated:

Hypothesis 5: The higher the autonomy degree of the firm, the higher the likelihood that it will implement foreseeing nonmarket strategies rather than subsequent ones in the host environment.

5.3.6. Country difference

The home country background of foreign owned firm impacts the way it interacts and responds to the host setting due to the psychic distance between the country of origin and the host country. This psychic distance is given by the institutional, political, economical and cultural differences between the two countries (Miller & Richards, 2002). The institutional distance between the home and the host country adversely affects the ability of the foreign firms to understand and interpret local context standards (Kostova & Zaheer, 2002). For the characterization of institutional systems in different countries, Murtha and Lenway (1994) present the pluralism/corporatism continuum. This continuum is based on country level characteristics such as governance type (transactional governance or planning governance), institutional relations and the overall stability of the country. Along this continuum there are two types of countries, i.e. pluralist and corporatist countries or systems (Murtha & Lenway, 1994). Foreign owned firms with corporatist background often try to 'build social capital and create positive-sum outcomes' (Hillman & Hitt, 1999, p. 830). They focus on consensus and cooperation as dictated/institutionalized in their home country experience (Bonardi, 2008). Foreign owned firms from pluralist home countries are more selective in their involvement with different nonmarket issues. Since political and overall nonmarket issues are diverse and constantly changing in pluralist countries, these firms are inclined to only participate on the public arena involving no more than issues affecting them (Hillman & Hitt, 1999). Fenton-O'Creevy et al. (2008) indicate that when host and home country systems significantly diverge, foreign owned firms will 'actively resist host country institutional pressures' (p. 152) and they will not design a specific strategy targeted and customized to deal with the host nonmarket context. They will maintain their home grounded action plan. This expectancy is based on the rationale that MNEs seek internal consistency with regard to norms and values; pursuing to fulfill shareholder value or a wider set of stakeholder interests (Fenton-O'Creevy, 2008). In this view of internal consistency, corporate norms and values would also be enforced on the foreign owned firms in host countries, even though different norms and values might prevail locally. When host and home country systems barely differ subsequently the host system does not harm their legitimacy. Thus, foreign owned firms see low risks and benefits in complying with host country pressures (Hillman, 2003). They will abide by their own uniform and will not

clairvoyantly design new strategies specific for dealing with the host country setting (Prakash, 2002). Consequently, their way to deal with nonmarket actors and issues in the host country is mainly ad hoc and sporadic. Therefore, we formulate the following hypothesis:

Hypothesis 6: The lower the difference between host and home country background, the higher the likelihood that the foreign owned firm will implement subsequent nonmarket strategies rather than foreseeing ones.

5.4. Methodology

5.4.1. Sample

This study uses data from foreign owned firms located in the Netherlands. It is generally assumed that the Netherlands is among those small economies that attract FDI due to their favorable geographic location. The data for this study were gathered using a postal questionnaire survey conducted among managing directors of foreign owned establishments in the Netherlands in the summer of 2009. The data collection process consisted of an initial mailing, a reminder and a telephone call (where necessary). We used the Dutch Invest database 2007 to select the foreign owned firms in the Netherlands. This database contains information on the physical and postal address, contact information, names of executives, number of employees, country of origin, SIC codes and sector. Our initial sample of 900 firms was selected on criteria of industry representativeness and firm size. Van Kranenburg and Burger (2009) show that only medium and large foreign owned firms in the Netherlands implement nonmarket strategies, in particular political strategies. As political strategies is one of the integral aspects of nonmarket area we focused our investigation on medium and large firms.

The number of returned response was in total 180 out of 900 representing foreign owned firms operating in the Netherlands (with mother companies from 21 countries including Austria, Belgium, Bermuda, Canada, Denmark, England, Finland, France, Germany, India, Ireland, Italy, Japan, Luxemburg, Norway, Portugal, South-Africa, Spain, Sweden, Switzerland, and US). Missing survey data reduced the number of usable responses to 160 representing around 18 percent of the sampled group.

5.4.2. Variables

Dependent variable

The Dependent variable *form of nonmarket strategy* is constructed from the questionnaire survey. Survey questions measured whether each foreign owned firm uses a subsequent or foreseeing nonmarket strategy. Based on a 5-point scale ranging from 'never used' (indicating various possible actions specific to subsequent behavior) to 'continuously used' actions, specific to foreseeing strategies. The inquiring actions ranging from 'never used' to 'continuously used' are as follows: business associations' participation; partnerships to influence political issues; interest groups awareness and networks; lobbying; supply of technical reports to regulators; press releases; testimonies in expert hearings; contributions to political parties; presence of firm's members in political parties; employing people with political experience; employee training for trade union participation; employee training for media relations; develop internal prevention system; develop internal monitoring system; pro-active self changing and regulation; building socially responsible reputations; challenge of government regulations; interactions with local governments; interactions with national governments; active cooperation with Dutch institutions; ad-hoc cooperation with Dutch institutions; having a clearly established set of action to deal with Dutch institutions; providing local or national governments with products or services.

For each firm the average score on subsequent was compared to the score on foreseeing; the firms which had the score for subsequent higher than 0.5 were coded as implementing subsequent (nonmarket) strategy; the firms with a score for foreseeing higher than 0.5 were coded implementing foreseeing (nonmarket) strategy. Interestingly, all respondent foreign owned firms showed the tendency to fall neatly into one or the other category, thus either subsequent or foreseeing. In our sample there was no foreign owned firm for which it proved difficult to establish whether it pursues one or the other type of nonmarket strategy. Consequently, Hillman and Hitt's (1999) supposition that firms could conceptually use both approaches does not appear to hold for our sample.

Independent variables

The variable *Size* is measured as the number of employees at the foreign owned firm in the Netherland (Hypothesis 1). According to Keim and Baysinger (1988) the number of employees relates directly to the ability of the firm to generate constituency support and leverage with the nonmarket actors. We rescaled the variable by dividing by 10. The logged indicator of size was used in the analysis.

The host country experience of the foreign owned subsidiary is indicated by the variable *host country experience* (Hypothesis 2). It is measured by the number of years since the firm has established its operations in the Netherlands.

To test Hypothesis 3 we created the variable *market scope*. This measure is based on the destination of the foreign firm's sales from the Netherlands. We asked the managing director to indicate which percentage share of the total sales of the foreign owned firm is going to the host country market. These shares were used to create the market scope variable ranging between 0 and 1; whereas the closer to 0 indicates broad market scope and the closer to 1 narrow market scope.

The variable *Regional Headquarters function* indicates whether the foreign owned firm operates as a regional headquarters (Hypothesis 4). It is a dummy with the value of 1 if the firm in the host country has a regional headquarters function and with a value of 0 if it has no regional headquarters function.

Autonomy degree indicates the level of autonomy of the foreign owned firm to make strategic decisions for the market and nonmarket environment in the host country (Hypothesis 5). We inquired about the following decisions whether they were made at the headquarters level (corporate parent) or at the subsidiary (FOF) level: business strategy, marketing and sales activities, manufacturing activities, logistic activities, research and development activities, industrial relations, relations with government, with interest groups, with the media, press releases, political arena involvement, business associations participation, coalition forming, constituency building, financial contributions of various types, charity donations and relations with nongovernmental organizations. The closer the value of the index is to 0, the more decisions are made at headquarters level, and thus the lower the autonomy of the foreign owned firm in host country. An autonomy index was created ranging between 0 and 1. The closer this index is to 1, the more decisions are made at parent firm (headquarters level) level, thus the higher the autonomy of the foreign owned firm in the host context.

Country Difference captures the difference in political systems concerning the political ideology between the home country of the foreign firm and the host country (Hypothesis 6). This variable is based on the difference in Beck's political ideology scale between the countries (Beck et al., 2001). Dow and Karunaratna (2006) showed that Beck's political ideology scale provides a good indication of the more general psychic distance measure.

Control variables

The decision to follow a foreseeing or a subsequent nonmarket strategy by the firm can also be affected by the number of other subsidiaries of the parent company in the same host environment. The more subsidiaries the MNE has in the host environment, the more likely that the MNE enjoys higher visibility in the host setting and due to this exposure it more vulnerable to the power of the nonmarket related actors (Getz, 1997). Therefore, foreign firms with a corporate parent that has established many subsidiaries within the host environment will generally prefer the foreseeing strategy over the subsequent nonmarket strategy. The variable *number of other subsidiaries* indicates the MNE visibility in the host country. It is measured by the total number of other foreign owned firms with the same parent company in the host country.

The preference of the kind of nonmarket strategies to follow by a foreign firm in a host environment can differ between industries. Therefore, we control for possible industry effects with the variable industry dummies for the three most favourable industries for foreign firms in the Netherlands. The three industries are: *manufacturing*, *finance* and *insurance*, and *services*.

5.5. Analysis and results

Table 5.1 presents the descriptive statistics and the correlation matrix for the variables in this study. Correlation is very low for most variables, indicating that multicollinearity is not a problem.

Table 5.1. Descriptive statistics (means and standard deviations (s.d.)) and bivariate correlations for all variables, N=160

<i>Variables</i>	<i>Mean</i>	<i>s.d.</i>	<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>	<i>6</i>	<i>7</i>	<i>8</i>	<i>9</i>	<i>10</i>
1. Form of nonmarket strategy	0.56	0.50										
2. Size	47.02	96.81	0.17									
3. Host country experience	23.76	26.18	-0.22	0.06								
4. Market Scope	0.40	0.37	0.09	-0.01	-0.04							
5. Regional Headquarters function	0.24	0.43	-0.14	0.01	0.20	0.14						
6. Autonomy degree	0.55	0.25	0.08	0.04	-0.05	0.11	0.01					
7. Country differences	0.36	0.23	-0.09	0.04	-0.00	0.07	0.01	-0.04				
8. Number of other subsidiaries	3.27	4.54	0.18	-0.03	0.05	-0.01	-0.01	-0.03	-0.13			
9. Manufacturing industry	0.44	0.50	-0.19	-0.12	0.28	0.29	0.20	-0.01	-0.03	-0.02		
10. Service industry	0.14	0.35	0.13	0.11	-0.10	0.09	-0.18	-0.08	0.04	0.01	-0.35	
11. Finance industry	0.16	0.37	0.00	0.07	-0.11	-0.20	-0.09	0.08	-0.04	0.01	-0.39	-0.18

In addition, variance inflated factors (VIF) were calculated by running “artificial” OLS regressions between each independent variable as the “dependent” variable and the remaining independent variables (Maddala, 2000). As all VIF values are smaller than 1.5, this indicates that there is no multicollinearity between the variables.

It is worth mentioning that 56.25 % of the foreign owned firms use foreseeing strategies to manage the host nonmarket context while 43.75 % of our sample follows subsequent strategies. We used a binomial logit model to test our hypotheses. Given the rather unambiguous nature of the results, we will only discuss the results of the full model. Compared to the other models, the full model has the expected lowest log-likelihood value. In terms of the overall fit of the model, the binomial logit model correctly predicts 71.25% of the formulated and implemented nonmarket strategies of firms in the host environment. Table 5.2 presents the results of the binomial logit model by NLOGIT 4.0.

Table 5.2. Estimation results of binomial logit nonmarket strategy model

<i>Variables</i>	<i>Control Model</i>	<i>Full Model</i>
Constant	0.25 (0.35)	-0.65 (0.76)
Size		0.03*** (0.00)
Host country experience		-0.03*** (0.01)
Market Scope		1.11* (0.59)
Regional Headquarters function		-0.96** (0.48)
Autonomy degree		0.18 (0.77)
Country differences		-0.49 (0.82)
Number of other subsidiaries	0.13** (0.06)	0.21*** (0.07)
Manufacturing industry	-0.81** (0.41)	-0.44 (0.51)
Service industry	0.38 (0.59)	0.27 (0.69)
Finance industry	-0.34 (0.52)	-0.20 (0.58)
N	160	160
- Log likelihood	102.85	85.40

Note: Standard Errors in parentheses, * $p < 0.10$, ** $p < 0.05$, and *** $p < 0.01$

We also estimated the binomial logit model with the variables size, host country experience, and number of other subsidiaries transformed into logarithms. The estimates of this model showed similar results as the model with no transformed variables. Therefore, we discuss only the results of the model with the variables that are not transformed. Turning to hypotheses testing, we find clear results for the independent variables as well as for the control variables. Consistent with hypothesis 1, the larger the size of the foreign owned firms, the more they use their resources for designing and implementing foreseeing actions in order to manage the host nonmarket context. Also, as suggested by Hypothesis 2, the lower the experience that they have within the host country, the more foreign

owned companies will use foreseeing strategies to develop relationship networks with nonmarket actors and acquire valuable information about nonmarket specific issues of the host setting. Based on the results, we can accept Hypothesis 3. As advocated by this hypothesis, the narrower the market scope, when the operations of the foreign owned companies target mainly the market and nonmarket host country environments, the more they prefer to develop foreseeing strategies to insure credible reputations and prevent possible risks or threats coming from the nonmarket arena. Furthermore, we also expected that the foreign firms with a regional headquarters function in a host environment would prefer subsequent nonmarket strategies over foreseeing nonmarket strategies (Hypothesis 4). Our results do indicate that firms with regional headquarters function would prefer to follow subsequent nonmarket strategies over foreseeing ones. As for the effect of the degree of autonomy of the firm to decide on its own market and nonmarket strategies (Hypothesis 5), it turns out that the degree of autonomy has no significant impact on the choice for the different forms of nonmarket strategies. Furthermore, the results indicate that difference on political systems between the host and home country of the foreign owned firm have no effect on the preference for particular forms of nonmarket strategies applied by the foreign owned firms. Consequently, Hypothesis 6 is rejected.

Interestingly, the result for the control variable number of other subsidiaries in the host country indicates that the number of other foreign firms owned by the same parent in the host market has a significant impact on the preference for a particular nonmarket strategy. Foreign firms with the same parent of a large number of other subsidiaries in the host country prefer to follow foreseeing strategies. Foreign owned firms whose parent is not diversified (as to number of interactions and firms controlled in the host country) opt for subsequent strategies. With respect to the industry control variables, the industry dummies have no effect on the preference for a particular form of nonmarket strategy.

Table 5.3. Estimation results of the marginal effects of the nonmarket strategy model

Variables	Marginal Effects Control Model	Marginal Effects Full Model
Constant	0.06 (0.09)	-0.14 (0.17)
Size		0.01*** (0.00)
Host country experience		-0.01*** (0.00)
Market Scope		0.25* (0.13)
Regional Headquarters function		-0.22** (0.11)
Autonomy degree		0.04 (0.17)
Country differences		-0.11 (0.19)
Number of other subsidiaries	0.03** (0.14)	0.05*** (0.01)
Manufacturing industry	-0.20** (0.10)	-0.01 (0.11)
Service industry	0.09 (0.13)	0.05 (0.14)
Finance industry	-0.34 (0.13)	-0.04 (0.13)
N	160	160

Note: Standard Errors in parentheses, *p < 0.10, **p < 0.05, and ***p < 0.01

It is also useful to examine marginal effects that show the change in predicted probability associated with changes in the independent and control variables. Table 5.3 presents the marginal effects of the explanatory variables. An examination of the marginal effects indicates the direction of the impact of the independent and control variables on the preference of the form of nonmarket

strategy implemented by foreign firms in a host environment, as well as their level of significance. The results show that a one point increase in the number of employees increases the probability that a foreign firm in a host environment will formulate and implement a foreseeing nonmarket strategy with 0.01. Furthermore, an increase in host country experience of the foreign firm decreases the probability that foreign firms prefer a foreseeing nonmarket strategy with 0.01. The result for market scope of the foreign firm is also interesting. An increase in sales scope of the firm on the host country market has a negative effect of 0.25 on the probability of the preference of the firm to implement a subsequent nonmarket strategy. The evidence also shows that firms with a regional headquarters function have a higher probability of 0.22 to follow a subsequent nonmarket strategy than a foreseeing nonmarket strategy. The results of the industry dummies show that foreign firms in the manufacturing, service, and finance and insurance industries do not prefer one form of nonmarket strategy over the other. Finally, an interesting result is shown by the number of other subsidiaries from the same parent in the host environment. An increase in the number of another establishment in the same host environment will increase the probability that the firms with the same partner will prefer to follow a foreseeing nonmarket strategy.

Hence, the evidence of the marginal effects also indicates that the preference for the form of nonmarket strategy is not only affected by foreign firm size, experience and market scope, but also influenced by its function and other firms with the same parent in the same host environment.

5.6. Discussion and conclusions

Our research goal was to explore the nonmarket strategies implemented by foreign owned firms in a host small open economy and to identify which firm's characteristics and resources determine the preference for the form of nonmarket strategy. Nonmarket strategies might also be translated to the management of institutions, and our analysis departs from institutional theory. As most comprehensive and inclusive nonmarket strategies we proposed foreseeing vs. subsequent nonmarket strategy. Based on international business and corporate political strategy literature, we identified six firm's idiosyncratic features: size, host country experience, market scope, regional headquarters function, country difference and autonomy degree likely to affect the predilection for implementing a specific form of nonmarket strategy. As control factors we considered the number of other firms from the same parent in the host country and the industry

in which the foreign firm operates.

Results confirm that large foreign owned firms implement foreseeing strategies while small and medium sized ones follow subsequent strategies. This result is consistent with Bhuyan's ideas (2000), and partially consistent with Wan and Hillman (2006) who also found a positive relationship between firm size and corporate political strategy. Our nonmarket approach is overarching political aspects of the business environment, reason for which we affirm the partiality in results with the above mentioned scholars. Large foreign owned firms with substantial employment base in the host country need to consider certain nonmarket issues regarding the provisions for their employees. Due to their significance in the host economy, large foreign firms have the capacity to develop and maintain long term co-operations with diverse nonmarket related actors. They have more assets at risk; this increases their incentives to foresee and engage within nonmarket contexts (Masters and Keim, 1985).

Regarding host country experience our empirical findings show that foreign owned firms with more experience in the host country are inclined to implement subsequent strategies while the less experienced firms use foreseeing strategies. These findings are consistent with the perspectives of Hillman and Hitt (1999) and Nahapiet & Ghoshal (1998). Albeit the experience of a foreign owned firm in the host country indicates commitment and repeated dealings with host nonmarket related actors throughout the years, in time the firm develops tacit knowledge and abilities to deal with the nonmarket host environment and actors. Likewise, young established foreign owned firms are motivated to implement foreseeing strategies meant to develop social capital derived from the network of relationships (Nahapiet & Ghoshal, 1998). These firms with limited experience, local reputation and credibility, are motivated to make use of foreseeing strategies to establish themselves among the host nonmarket actors (Luo, 1999). The liability of foreignness in a host environment affects young foreign owned firms more than older, more experienced ones (Zaheer, 1995).

Foreign owned firms with a narrow market scope prefer to follow foreseeing nonmarket strategies over subsequent strategies. This result is in line with other studies (Bhuyan, 2000; Hillman & Hitt, 1999; Marx, 1990; Schaffer & Hillman, 2000). They found that foreign owned firms operating only on local markets are generally more able to acquire extra knowledge and develop intensified interactions with nonmarket linked actors. These foreign owned firms are less likely to uphold continuous in-depth collaborations due to the one host market focus. The evidence on the type of nonmarket strategy implemented by the

foreign owned firms in a host market depending on firm's characteristics also shows that the function regional Headquarters significantly determines the preference for a particular type of nonmarket strategic behavior. Foreign owned firms with a regional Headquarters function subsequently deal with the host nonmarket context, while the ones with no Headquarters function pursue foreseeing strategies in the same nonmarket context. Firms with no regional Headquarters function have the possibility to focus only on host nonmarket issues and areas, while firms with a regional Headquarters function not only should focus on the host country but probably also at other host countries.

When the function of the firm in the host country is not only to monitor and coordinate its activities in this market but also the activities of other firms within the parent company it will be more incline to implement subsequent nonmarket strategies. In general, it is more difficult for these firms to generate knowledge, to thoroughly build up expertise and collaborations with a few nonmarket actors relevant to their scopes. Our empirical investigation of the regional Headquarters function vis-à-vis nonmarket strategy constitutes a first initiative in the field.

Even though Hillman & Hitt (1999) found a relationship between difference in political systems and the choice for political strategies, we did not find evidence for the same predictions in the case of nonmarket strategies. Nonmarket strategies target a higher spectrum of institutions or linked actors than political strategies. Moreover, the elements used to categorize a country mainly based on political systems characteristics are probably too narrow compared to the nonmarket spectrum.

Related to the foreign owned firms' autonomy degree it becomes obvious that no matter if the firm enjoys a high or low autonomy from the corporate parent, this autonomy cannot predict any indication with respect to the specific nonmarket strategy implemented. Provided that a foreign owned firm would have high autonomy degree this only shows that it has the freedom to establish/decide on its own a certain type of nonmarket strategy. But whether this strategic behavior would be foreseeing or subsequent, it cannot be further predicted by its autonomy degree. The same rationale stands for foreign owned firms with low autonomy.

The presence and number of other firms with the same parent in the host country proved to have a significant impact on the type of nonmarket strategy. This finding adds to the perspective of Marx (1990), Schaffer and Hillman (2000). The experience within the host country is given by the (numerous interactions)

with the host context, by the (host country related) knowledge accumulated by the parent company, by the strength of involvement and collaborations with specific actors of this host setting (Marx, 1990). Numerous interactions with nonmarket related actors and long term relations increase the knowledge of the parent about the host context. Consistently, numerous firms from the same MNE implies repeated contacts with host actors and more possibilities of developing in-depth relationships with these actors among which the nonmarket linked ones. They can deal with interest groups or gain media coverage; thus, develop a continuous loop of various forms of interactions with a wide range of nonmarket actors (Bonardi & Keim, 2005). A high number of firms having the same parent implied numerous interactions and increased possibilities for collaborations. Foreseeing behavior is a way to benefit from social capital development brought by networking and frequent exchanges. Numerous opportunities to interact with the host political, regulatory, and standards institutions, deal with interest groups or gain media exposure, thus a continuous loop of various forms of exchanges and contacts.

Scholars generally agree that institutional, industry and firm level variables are important determinants of political and nonmarket strategies. By inferring into these general premises, we further investigate and provide important empirical evidence which reveal specific firm characteristics, resources and determinants of their nonmarket strategic behavior. Research on networks and inter-organizational politics suggests that collaboration can help organizations achieve a more central and influential position in relation to other organizations. While these effects have been identified and discussed at some length, little attention has been paid to the relationship between them and the nature of the collaborations that produce them (Hardy et al., 2003). We advance the field beyond simple presumptions of sporadic nonmarket actions. This research shows the wide spectrum of nonmarket proceedings which firms have at their disposal in formulating their strategies and explain the dynamics and idiosyncratic features leading up to these strategies. We elucidate managers toward both context and internal resources considered when making strategic choices and the prudent approach in dealing with nonmarket related actors in their particular situation (Shaver, 1998); especially if they aim to develop particular social capital, networks, and responsiveness to the host country; or become embedded in the host country business setting. The benefits of nonmarket strategies should outweigh the costs of developing it (Getz, 1997). Firms should thereby also consider the effectiveness of alternative actions (Baum et al, 2000). Additionally, firms should include nonmarket strategies as a solution to issues arising from the institutional environment because it is already an embedded, integrated part (tool) of their

overall strategy, which they can further start regarding and assessing as separated strategy, and further expand and refine it (Cyert, 1963). Firms have already started to institutionalize nonmarket actions by having created a public affairs department or government relations department taking continuously care of nonmarket threats and opportunities (Getz, 1997). In these cases, nonmarket strategies will obviously often be used as a potential answer to problems arising in the institutional environment (Bonardi & Keim, 2005). By contrast, the political and social image of the firm (which often dresses as a 'corporate citizen', pretending to be 'socially responsible') is a perception by the general public. Its memory is much shorter and its opinion more shaped by the media than the perception of the interest group.

Conceptualizing nonmarket strategies on the basis of foreign owned firms in a host environment begins to tackle this complex but imperative topic. The strategic management and international business literature has accumulated a vast amount of knowledge on FDI over the years. Nonetheless, the nonmarket strategy topic has received much less attention so far. Given the political, regulatory and further nonmarket related aspects involved with foreign owned firms' activities, a more inclusive approach focusing on both market and nonmarket aspects shed important light in the understanding of FDI. Our study represents an empirical advance in its field however a number of further lines of research deserve attention in future work. Although industry was not significant in determining the type of nonmarket strategy, further research may uncover other collective level variables that may affect such choices. Future research could also consider the host country influence on the nonmarket strategy applied. Nonmarket queries are also inherently tied to the rationales of corporate action reason for which we suggest for future research to include corporate relevant factors into the analysis.

CHAPTER 6

WHEN DO FOREIGN OWNED FIRMS USE FIRE-FIGHTING ACTIONS TO DEAL WITH THE MEDIA? A RESOURCE BASED VIEW

This chapter explores the types of actions chosen by foreign owned firms to manage the influences of the host media and to exploit the possible benefits that this media can convey to their business activities from a resource base perspective. As most comprehensive and inclusive types of actions dedicated to media, we explore two particular forms, namely fire-fighting and strategic actions. Evidence is provided by a survey sample of 160 foreign owned firms operating in the Netherlands. Results show that young foreign owned firms with a broad market focus and with low perception of media power in the host society are more inclined to utilize fire-fighting actions; while older foreign owned firms with a market focus on the host economy are predisposed to employ strategic actions to manage the media effects. Empirical outcome also indicates that foreign owned firms from the service industries prefer to employ strategic actions to manage the influences of host media institutions and issues.

6.1. Introduction

In an open economy due to globalization and the development of communication technologies the media has become a powerful institution within the broader framework of social, cultural, political, and economic structures of society. However, the role of the media is not fixed nor well-defined, but it is determined, implemented, and interpreted by legislatures, government administrative agencies, judicial institutions, public sentiment and ethical consensus specific to each country. For this reason, foreign owned firms operating in an unfamiliar host environment augment their exposure and vulnerability to host media pressures (Miller, 1991; Dean & Brown, 1995). The variation of the role of the media across countries is a process of cultural

dependency and it is significantly attributed to the involvement of any state or government apparatus consolidating national identity (Hamelink, 1979). Simultaneously, cultural differences between countries also result in media functions and impact differences as well; reason for which foreign owned firms should acknowledge that their practices might be perceived and interpreted differently by the host media than in the home country (McQuail, 1994). Hereby, the media becomes a vehicle for cultural expression and cultural cohesion between the values of the home country of the foreign owned firms and the host values (Bucy, 2003). Given that the media continuously shapes the public opinion through the content it communicates, firms can use the media's influence to craft their image and build civic legitimacy among stakeholders at large. However, as the media controls the intentions, plans, knowledge, beliefs, or opinions that is, mental representations that monitor explicit activities, it also affect firms' reputation (building) by equipping the society with the tools necessary to make informed choices over business practices (van Dijk, 1992). As a result, media can help craft or shatter firms' image and reputation among society in general or diverse stakeholders. Furthermore, as the media also influences the visibility and exposure of their practices, foreign owned firms should consider this worthy and multifarious stakeholder (Neuman et al., 1992) and the actions used to manage it. These actions could serve to either buffer their organizations from the host media's impact or to utilize the host media to improve their image, reputation and legitimacy in the host country (Baron & Diermeier, 2007). One type of actions through which foreign owned firms can deal with the intrinsic complexity of the host media entails fire-fighting actions - short term, easily reversible, and adaptive measures. They involve few resources and they are relatively easy to implement and reverse (Chen, 1996). Another type of actions that foreign owned firms can employ are strategic actions to capitalize on the information transfer, reputation and legitimacy building (Mahon et al., 2004). Strategic actions involve a more significant commitment of resources and they are more intricate to implement and reverse (Chen, 1996). These actions are long termed and they entail a careful analysis of specific characteristics of host media (institutions), its pluralistic issues and a clearly established action plan to manage these issues (Miller & Wanta, 1996). The choice for a certain type of media actions depends on how these firms perceive the media power in the host society and the resources they dispose of to employ in these actions (Baron, 1995; Schaffer & Hillman, 2000).

Therefore, this study explores the types of actions chosen by foreign owned firms to manage the media and argues the necessity to understand the dynamics employed in public arenas to encounter influences from the media. We employ

a resources based perspective in studying the type of media actions. Evidence in brought from the Netherlands. The Netherlands represents the fifth largest recipient of foreign investments in the world and, due to its favorable location and active role within the European Union many multinational enterprises (MNEs) have chosen the Netherlands as strategic orientation. This host setting becomes a suitable and worthy example of a host economy with an intense presence of foreign owned firms in which to investigate their media actions.

The structure of this exploratory study is as follows. Section 2 provides an extensive review highlighting the plethora of fire-fighting and strategic actions which enable foreign owned firms to manage the media. Section 3 elaborates on the resource based view of the media actions of firms and states our hypotheses. Section 4 presents the sample, data sources and operationalization of the variables used to test the hypotheses. Empirical results are presented in section 5, while section 6 discusses the findings, states the conclusions, the contribution of our work and the implications for practice.

6.2. Exploring fire-fighting and strategic actions to manage the media

The media disseminates and presents the stories, ideas and information about the foreign owned firms' practices and shape the image, reputation, and legitimacy of these firms in the host context (Dean & Brown, 1995). The media also facilitates debates between foreign owned firms and diverse host institutions and it poses as an advocate and a social actor respecting and promoting pluralistic values (McQuail, 1997). Foreign owned firms can interact with the media through fire-fighting actions usually to achieve short term objectives or to provide an adaptive response to a specific-event (Chen, 1996). Such actions typically consist of incremental and reversible measures utilized to respond to negative media exposure and to provide immediate needed remedies. Therefore, issue or event-specificity and ad-hoc actions are relevant characteristics of fire-fighting practices (Kobrin, 1982). They are responses initiated as short-term interactions and on an issue-by-issue basis (Kaufmann, 1998). For the implementation of fire-fighting actions foreign owned firms do not need to identify the most influential media channels and organizations in order to develop specific stratagems to persuade them over certain reputations. When a specific circumstance arises then foreign owned firms take temporary action targeted at the organization that caused the issue. These remedies serve to adjust the image or position vis-à-vis the issue of dispute and to redeem the company's stance. Accordingly, fire-fighting actions

usually target the media institutions which have caused the impact or spurred the momentary matters. For this reason, foreign owned firms make use of fire-fighting actions when the effects have become perceptible and needed (Hillman & Hitt, 1999; Mitchell & Blumler, 1994). Generally, fire-fighting actions are easy to deploy and they do not involve intricate resources and capabilities build within the organizations. They are handy tools for foreign owned firms to quickly manage the contingencies from the host media without attempting a fit between the organizational strategy and structure to these contingencies (Donaldson, 1996). They offer fast solutions to unexpected problems reason for which foreign owned firms use their public relations, and press conferences for a specific issue rather than having in-house specialists working on a continuous base to improve relations with media and reputation building. Such actions do not involve costly investments such as employee training programs. Thus, resources and actors are provisionally immobilized (Hillman & Hitt, 1999) and once the issue is solved or remedied the media awareness reduces its priority (Kiewert & McCubbins, 1991).

Another way for foreign owned firms to manage the host media is through strategic actions which involve a significant commitment of organizational resources and they are intricate to implement and reverse (Chen, 1996). This action type initially entails a careful consideration of specific characteristics of the host media such as diversity of media institutions, its pluralistic issues, transparency and its most influential means (Miller & Wanta, 1996). According to this scrutiny, foreign owned firms establish long term objectives aimed to align foreign owned firms' way of doing business with the features detected during the initial screening. They can use the media to achieve their goals by means of strategic actions (Nahapiet & Ghoshal, 1998). Strategic actions also show the commitment of the foreign owned firms to the host environment. However, these actions require dedication of specific organizational resources deployed to analyze the host media institutions, to specialize in communicating techniques with and through these institutions and to develop long term relations. Such strategic actions also help foreign owned firms to utilize the media in creating responsible reputations (public perception of foreign owned firms mission and practices) that can further avoid becoming the target of negative public perception (Bramson, 2007). Press releases regarding various public matters highly scrutinized in the host setting or by the host media are also ways to manage reputations and create a certain stand vis-à-vis interest issues of the host society. Nonetheless, the success of these releases depends on when they are sent, through which media organizations they are sent, and how they are sent (Hutchins Commission, 1947; Bertrand, 2000). For this reason strategic action planning is concerned with finding the most suitable moment to act and the most

potential media organizations to interact with (Holburn & van den Bergh, 2004). Foreign owned firms rationally brush up on the firms' reputation and media skills by hiring media experts or by training their employees on media relations. Strategic actions repertoire also entail a more strategic screening and further adaptation to the contingencies of host media and they require resource allocation for putting into practice this adaptation (Donaldson, 1996). To a certain extent these actions do attempt a fit between the media contingencies and organizational strategic adaptation (Reed, 1985, Pennings et al., 1998)

Thus, strategic actions imply plainly defined and precise objectives of previewing certain influences before taking place and diminishing their impact on the foreign owned firms' business activities (Tanzi, 1998). As media generally covers issues of high societal significance and increased audience interest (Baron, 2006; Wanta & Hu, 1994), foreign owned firms should anticipate which issues will attract media coverage and how they will be treated. To support such objectives, foreign owned firms can contract suitable media experts and public relations specialists for media relations. Whether foreign owned firms prefer to implement strategic or fire-fighting actions depends on the way these firms perceive the media power and the resources they have available to deploy for or engage in such actions (Hillman et al., 2004). Therefore, the following section discusses the perception of the media power in the host society and firm's resources in relation to the type of media actions.

6.3. Resource based perspective on fire-fighting and strategic actions

This section explores key determinants of fire-fighting and strategic actions utilized by foreign owned firms to cope with the media's pressures and attain certain advantages within the host economy. The preference for a certain type of media actions, fire-fighting or strategic, is discussed in relationship with the way these firms perceive the media power in the host society and the resources they dispose of to employ in these actions (Hodges, 1986; Kiouisis, 2004; Greenberg, 1966).

6.3.1. Perceived media power

Media power is a form of mind control and influence which is indirectly accessed through mental representations and the content the media communicates. Such matters require a more explicit insight into the representations of the social mind. The fields of cognitive and social psychology show that the perceived media power involves aspects of credibility, public accountability, responsibility, and answerability (van Dijk, 1992; Fudenberg et al., 1994). In terms of credibility, media power indicates the extent to which the media controls the mental representations of the public (Haley, 1996). While, accountability is defined as the capacity and willingness to render account for its own actions, responsibility has to do with proper conduct (Brummer, 1991). This conduct is contracted or assigned to the media by governments and legislation, or by social, moral and ethical consensus, culturally specific to each context. However, McQuail (1997) discusses media power also as a form of answerability distinguishing between two kinds of liability involved by this power: negative liability, when the media causes damages for reputation and image and positive liability, when through the media certain goals are achieved by these firms (answerability) (Bardoel, 1996; Bardoel & d'Haenens, 2004). Every setting provides formal regulations stipulating the media's activities and conduct (Robinson et al., 1997). However, due to the recent and more commercial media reality, the media is steadily losing its autonomy to the interests of management and shareholders. In this view, shareholders and networks are means of making use of media power. In this situation, its autonomy and the ability to uncover malpractice and corruption at all levels of society and to hold governments and business accountable for their actions is highly skewed.

As the role and power of the media are determined, implemented, and interpreted by host legislatures, government administrative agencies, judicial institutions, public opinion and ethical consensus specific to each host setting (Gans, 1998; Rogriguez et al., 2005; Miller & Wanta, 1996), the power of the media in the host setting may also differ from the home setting of the foreign owned firm. The role of power of media becomes even more complex when firms have to deal with host settings. Depending on how these firms perceive the media influence power in the host society, they will decide on the necessity and depth of actions to handle this power. If the foreign firm perceives the host media as being strongly influential to the public opinion, society and stakeholders, then they will dedicate specific resources and design actions to manage this influence. In this case, foreign owned firms see more opportunities from making use of the media power to build a certain reputation and legitimacy among the

host stakeholders. When the media has strong influence power, then intricate actions seem worth the effort. Foreign owned firms will try to make use of this power to create perceptions and outer representations of their organizational image, scope and practices. Thus, they recognize the opportunities from aligning and adapting the organization to external media contingencies because of increased benefits. Firms become motivated to establish a precise action plan and long term objectives to make use of this influence power for the benefit of the firm itself. Instead of using sporadic conferences which would serve temporary purposes, foreign firms should contract media specialists to assist in building strong reputation and favorable image among host media's institutions as these dictate the society perceptions as well (Greenberg, 1966).

However, when the perceived media power is low, then foreign owned firms do not see the feasibility of deploying organizational resources and using higher cost actions as the media does not have the power to contribute to reputation building or it cannot highly influence their business activities (Kiewert & McCubbins, 1991). In this situation foreign owned firms utilize temporary, and easy to implement fire-fighting actions which provide them with the buffer against scattered events with low implications for their business activities (Chen, 1996). This actions repertoire includes sponsorship advertising, ad-hoc press conferences, and various donations as most suitable and low cost tactics for contexts of low media power (Mitchell & Blumler, 1994). Because of the low media power, foreign owned firms will not see any benefits from partnering with the media, nor any opportunities for instant credibility and trust in the host environment when the media itself enjoys low credibility in this environment (Bramson, 2007). In addition, a low media power also entails a low perception of media related contingencies, which only de-motivates foreign firms to strategically devote resources to actions and fit their organizations to these contingencies (Donaldson, 1996). Therefore, we formulate the following hypothesis:

Hypothesis 1: The lower the perceived media power in the host society, the higher the likelihood that the foreign owned firm will use fire-fighting actions rather than strategic actions to manage the media in the host country.

6.3.2. Resources

While perception of the media impact is an important element in foreign owned firms' choice for fire-fighting or strategic actions, these choices are also determined by their resources as they play an important role in their ability to implement a certain kind of actions to manage institutional influences such as the media (Conner & Prahalad, 1996; Hillman et al., 2004). Resources based view provides grounds for this relationship. From the resource based view we can make a distinction between tangible and intangible resources, whereas tangible resources are those resources like equipment and employment base, and intangible resources can be corporate images, brands, knowledge and experience (Hall, 1993). Also resource based elements can be used to further develop liability of newness and smallness arguments. Therefore, the relationship with the type of media actions can be explained through both tangible and intangible resources arguments.

Foreign owned firms with a large tangible resources and employment base are more visible to host stakeholders, reason for which they become more sensitive to media's influence and coverage. As large foreign owned firms enjoy a higher visibility and exposure, they are also more vulnerable to the power of the media (Getz, 1997). 'The larger a firm becomes, the more likely it is to catch the public's eye' (Meznar & Nigh, 1995; p. 980). Therefore, large foreign firms are more motivated to design and are able to implement strategic actions, long term oriented which would insure a solid reputation in the host country. Also due to a larger employment base and multiple networks with stakeholders, the potential damages caused by a negative media coverage increase. They will try to prevent and minimize potential risks by deploying organizational resources for strategic action planning (Masters & Keim, 1985). In this case, the size of the firm becomes not only an incentive for strategic actions but also a means; larger firms have more organizational resources at their disposal to dedicate to strategic actions. Large firms are also dependent on many powerful stakeholders (Meznar & Nigh, 1995) and they are motivated to develop and maintain long term relations and networks with these stakeholders to solidify their trust and reputation. To assist with solidifying trust or reputation, other actions might involve contracting media specialists who possess the skills and local know-how characteristic to the host country to support them in developing solid reputations (Bhuyan, 2000). These firms also possess the resources necessary to contract media experts or to develop in-house training programs for their employees.

On the other hand, due to resource constraints small foreign owned firms focus more on the market stakeholders than the media (Hannan et al., 1995). Because small firms are restricted in their actions by limited resources they would dedicate less resources to media actions and give priority to other market related actions (Mosakowski, 1998). Thus, based on resource based view we argue that due to limited organizational resources, smaller foreign firms make utilize actions do not involve intricate resources or specific resource allocation. They are handy tools for foreign owned firms to quickly manage the contingencies from the host media without attempting a fit between the organizational strategy and structure to these contingencies (Donaldson, 1996). Therefore, smaller foreign firms would employ fire-fighting actions to deal with the media. For this reason, we formulate the following hypothesis:

Hypothesis 2: The less tangible resources the foreign owned firm has, the higher the likelihood that it will use fire-fighting actions rather than strategic actions to manage the media in the host country.

However, intangible resources may also determine the preference for a certain type of actions and practices to cope with host media influences as it was proven to affect the ability to engage in long term strategic actions (Hall, 1993). Liability of smallness upholds that smaller firms which lack the influence, endorsement base, legitimacy and networks to implement strategic actions (Hannan & Freeman, 1984). This relationship can also be explained by employing liability of newness arguments (Hannan & Freeman, 1984). Consequently, young, new established foreign owned firms have different priorities than older firms; these priorities differences are given by their liability of newness. Accordingly, young foreign firms have the organizational resources stretched to the maximum and they still have to develop organizational roles and routines and learn new roles as social actors (Stinchcombe, 1965; Hannan et al., 1995). These roles and routines that younger firms need to learn represent priorities that young firms place at forefront of their actions and strategy (Hillman & Hitt, 1999). Young firms in particular need to develop their knowledge base about market forces and other market related issues of the host country; for this reason they would place fewer accents on institutional influences such as the media. (Hannan & Freeman, 1984; Hannan & Carroll, 1992). For these firms it is more important to position themselves in the host market than to use their resources for specific strategic actions designed for the media. Therefore, matters such as stakeholder and media management become second priority; they would cope with these matters in an ad-hoc manner, whenever and if required. Fire-fighting actions offer them instant and fast needed remedies as these actions aim more for an

adaptation of the young firm to the matters at hand. Additionally, the lack of legitimacy, reputation, experience, networks, brands – intangible resources limits these firms' possibilities for strategic actions and stakeholder relationships. However, older and more established foreign owned firms have a higher influence power, legitimacy and networks required for implementing strategic actions. As they are present in the host setting for a longer period, their years of experience provide them with the knowledge, reputation and networks needed for implementing strategic actions (Suchman, 1995; Hsu & Hannan, 2005). Therefore, we formulate the following hypothesis:

Hypothesis 3: The less intangible resources the foreign owned firm has, the higher the likelihood that it will use fire-fighting actions rather than strategic actions to manage the media in the host country.

6.4. Methodology

6.4.1. Sample and data

The data for this study was gathered using a postal questionnaire survey conducted among managing directors of foreign owned firms in the Netherlands in the summer of 2009. Initially, we used Dutch Invest database 2007 and Dun and Bradstreet database to select the foreign owned firms in the Netherlands. This database contains information on their physical and postal address, contact information, names of executives, number of employees, country of origin, SIC codes and sector. Our initial sample of 900 foreign owned firms was selected on criteria of industry representativeness and firm size. In order to improve our preliminary survey and assess its feasibility, we firstly conducted in-depth interviews with seventeen managers and discussed the survey items. Their comments and suggestions for improvements were used to revise the final survey. Subsequently, a pilot survey was carried out to evaluate the revised survey instrument. The number of final returned responses was in total 180 foreign owned firms coming from 21 countries including Austria, Belgium, Bermuda, Canada, Denmark, England, Finland, France, Germany, India, Ireland, Italy, Japan, Luxemburg, Norway, Portugal, South-Africa, Spain, Sweden, Switzerland, and USA. Missing survey data reduced the number of usable responses to 160 representing around 18 percent of the sampled group.

6.4.2. Variables

Dependent variable

The dependent variable is the *type of media actions* used by foreign owned firms to deal with the media's influences. In order to measure the type of media actions each firm implements, we measured various media actions and whether these actions were used ad-hoc and short-term or continuously, on a regular base. We inquired each firm if they undertake a wide variety of media actions/ practices as follows: press releases; press conferences; employees training for media relations; contracting media experts; hiring media specialists; contracting public relations specialists; contracting external lobbyists; building socially responsible reputations (Baron, 2006; Bertrand, 2000; Hutchins Commision, 1947; Wanta & Hu, 1994). Firms had to specify whether they utilize each action 'never used' (fire-fighting), 'rarely used' (fire-fighting), 'very frequently used' (strategic) and "continuously used' (strategic) (Chen, 1996; Hillman, et al., 2004; Kaufmann, 1998). In order to establish which type of media actions is used by a firm the average score on fire-fighting was compared to the score on strategic; the firms which had the score for fire-fighting higher than 0.5 were regarded as implementing fire-fighting actions and coded 0; the firms with a score for strategic higher than 0.5 were regarded as implementing strategic actions and coded with 1. Interestingly, all respondent foreign owned firms showed the tendency to fall neatly into one category, thus either fire-fighting or strategic.

Independent variables

The variable *perceived media power* (Hypothesis 1) in the host society is constructed from the questionnaire survey through a composite measure indicating several items as perceived by foreign owned firms. The perceived media power was measured through four components, namely accountability, answerability, credibility, and responsibility. On a 5-point Likert scale, the following items measured these components: media fairness, media accuracy, and factuality (accountability); up-to-date coverage, concern for public interest, concern for community's well being, (answerability); confidence in media institutions, trustworthiness, media saliency (influence capacity) (credibility); report the whole story, separation of fact and opinion, and professionalism of people in media (responsibility) (Newhagen, 1997; Miller & Wanta, 1996; Bardhan, 1997; Djankov et al., 2002; McQuail, 1997; Tanzi, 1998; Treisman, 2000). Using the items above, principal component analysis extracted the score for perceived media's power for each foreign firm (table 6.1). The correlation fulfills the requirement condition for factor analysis.

Table 6.1. Correlation of factors for Perceived Media Power

Variables:	1.	2.	3.	4.	5.	6.	7.	8.	9.	10.	11.	12.
1.Media's fairness												
2.Report the whole story	.67											
3.Accuracy	.44	.74										
4. Confidence in media institutions	.47	.49	.58									
5.Up-to-date coverage	.41	.51	.59	.45								
6. Concern for public interest	.46	.43	.49	.46	.59							
7.Concern for community well be.	.63	.48	.48	.42	.46	.60						
8.Separation of fact and opinion	.63	.50	.63	.39	.48	.44	.44					
9.Trustworthiness	.62	.52	.57	.45	.51	.48	.51	.68				
10.Factuality	.69	.54	.57	.31	.46	.48	.55	.57	.64	.65		
11.Media saliency (influence capacity)	.53	.68	.66	.48	.51	.46	.49	.60	.61	.47	.59	
12.Professionalism of people in media	.60	.52	.52	.45	.56	.41	.39	.50	.50	.55	.57	.57

Table 6.2 reports the results of the extraction method principal component analysis and the Cronbach's Alpha of the factors used. All components show a Cronbach's Alpha higher than 0.9. This exemplifies that our components are reliable and should be used in the analysis about the perceived media power. As all the component factors showed high loadings, thus rather consistent significant contribution to the media power, no initial factors was excluded from the final analysis/ computation of the variable perceived media power.

Table 6.2. Results extraction method: principal component analysis
Perceived Media Power

	Raw component	Rescaled component	Cronbach's Alpha
1. Media's fairness	.740	.805	.928
2. Report the whole story	.729	.781	.929
3. Accuracy	.801	.837	.927
4. Confidence in media institutions	.708	.650	.935
5. Up-to-date coverage	.762	.740	.931
6. Concern for public interest	.679	.682	.933
7. Concern for community well being.	.670	.681	.929
8. Separation of fact and opinion	.735	.772	.930
9. Trustworthiness	.770	.782	.928
10. Factuality	.720	.759	.931
11. Media saliency (influence capacity)	.760	.822	.928
12. Professionalism of people in media	.740	.727	.931

Table 6.3 provides the correlation results, square roots, and bootstrapping results for the constructs used to measure the perceived media's impact.

Table 6.3. Construct-level measurement statistics & bootstrapping procedure Perceived Media Power^{a,b}

	1.	2.	3.	4.	5.	Beta coefficients	T-values
Accountability	0.70					0.35	2.00
Answerability	0.28	0.72				0.28	1.95
Credibility	0.26	0.16	0.74			0.35	2.02
Responsibility	0.26	0.24	0.09	0.70		0.19	1.29

^a Numbers on the diagonal shown in bold denote the square root of the average variance extracted

^b Raw measures mean-centered prior to creating interactions

The square roots of the average variance extracted and the evaluation of the measurement model reveals that items used to measure the various dimensions of perceived media power, namely accountability (square root 0.70), answerability (square root 0.72), credibility (square root 0.74), and responsibility (square root 0.76) are good indicators/ measurement for these dimensions. Based on Chin (1998), f^2 -values of 0.02, 0.05, and 0.35 show that latent variables have a small, medium and respectively large effect-contribution. Our results show that the most important constructs associated with the media power in the host society are: accountability (t-value 2.00; coefficient 0.35), answerability (t-value 1.95; coefficient 0.28), and credibility (t-value 2.02; coefficient 0.35). Furthermore, the square root for the measurement of the perceived media power 0.76 also indicates that the above dimensions represent a good measurement for this variable.

The independent variable *tangible resources* is measured as the number of employees of each foreign owned firm in the Netherlands (Hypothesis 2). According to Hall (1993) and Keim and Baysinger (1988) the number of employees relates

directly to the ability of the firm to engage in long term strategic actions and to generate constituency support and leverage with the nonmarket institutions among which we distinguish the media.

The variable *intangible resources* (Hypothesis 3) is measured by the number of years since the firm has been established in the Netherlands. This indicator provides a fair overview on the experience and knowledge accumulated by the foreign owned firm about the host setting, stakeholders, and way of doing business (Hall, 1993).

Control variables

The preference for the kind of actions used by foreign owned firms to deal with the media in a host country can differ between industries due to increased media exposure of certain industries. In some industries, firms are more sensitive to the media impact than in others due to the direct media impact on their activities (e.g. sales). Therefore, we control for possible industry effects with the variable industry dummies for the three most targeted industries by foreign firms in the Netherlands. The three industries are: *manufacturing*, *finance* and *insurance*, and *services*.

Additionally, we consider that other characteristics of these foreign owned firms might also relate to their choice for media actions. The control variable *regional headquarters function* indicates whether the foreign owned firm operates as a regional headquarters. It is a dummy with the value of 1 if the firm has a regional headquarters function in the host country and with a value of 0 if it has no regional headquarters function. Foreign owned firms with a regional headquarters function are more visible to the public eye and more sensitive to reputation and legitimacy issues. For these firms the media can play an important role in their interactions with institutions and interest issues which set standards and regulate the specific segment of that activity (Bhuyan, 2000).

The control variable *market scope* designates the spectrum of interactions and stakeholders involved with the foreign owned firms activities. A broad market scope entails that the firm has many stakeholders with different and varied interests or issues to manage, reasons for which it is difficult to develop strategic actions which are rather used for specific issues. Therefore, it is likely that firms with a broad market scope will use fire-fighting actions. For the companies with a narrow scope reputation is more important, therefore it is more likely they will chose strategic actions to build trusts and reputations among a smaller number of stakeholders. This control variable is measured based on the destination of

the foreign firm's sales from the Netherlands. We asked the managing director to indicate which percentage share of the total sales of the foreign owned firm is going to the host country market. These shares were used to create the market scope variable ranging between 0 and 1; whereas the closer to 0 indicates a broad market scope and the closer to 1 a narrow market scope.

The decision to use strategic actions rather than fire-fighting ones can also be affected by the number of other subsidiaries of the parent company in the same host environment. The more subsidiaries the MNE has in the host environment, the more likely it is that it enjoys higher visibility in the host setting and, due to this exposure, it becomes more vulnerable to the influence power of the media (Getz, 1997). Therefore, foreign owned firms with a corporate parent that has established many subsidiaries within the host country might generally prefer strategic actions over fire-fighting ones. The control variable *number of other subsidiaries* indicates the MNE visibility in the host country. It is measured by the total number of other foreign owned firms with the same parent company in the host country.

The control variable *Country Difference* captures the difference in political systems concerning the political ideology between the home country of the foreign firm and the host country. This variable is based on the difference in Beck's political ideology scale between countries (Beck et al., 2001). Dow and Karunaratna (2006) showed that Beck's political ideology scale also provides a good indication for the more general psychic distance measure.

6.5. Empirical findings

Table 6.4 presents the correlation matrix for the variables in this study. Correlation is very low for most variables, indicating that multicollinearity is not a problem.

Table 6.4. Bivariate correlations for all variables, N=160

Variables:	1.	2.	3.	4.	5.	6	7.	8.	9.
1.Perceived Media Power									
2.Tangible resources	.15								
3.Intangible resources	.11	.01							
4.Manufacturing	.11	.17	.18						
5.Finance & Insurance	.10	.16	.00	.08					
6.Services	.17	.05	.10	.05	.07				
7.Regional HQ Function	.00	.18	.11	.17	.08	.10			
8.Market Scope	.10	.15	.16	.11	.18	.00	.11		
9.Nr.other subsidiaries	.10	.17	.10	.07	.00	.15	.10	.11	
10.Country Differences	.11	.10	.06	.15	.06	.10	.01	.11	.18

In addition, variance inflated factors (VIF) were calculated by running “artificial” OLS regressions between each independent variable as the “dependent” variable and the remaining independent variables (Maddala, 2000). As all VIF values are smaller than 1.5, this indicates that there is no multicollinearity between the variables. It is worth mentioning that 70.5 % of the foreign owned firms makes use of fire-fighting actions to manage the influence of media on their business activities and 29.5 % of the sample implements strategic actions for the same purpose. We used logistic regressions to test our hypotheses. Table 6.5 shows the estimation results of the models.

Table 6.5. Estimation results for determinants of media actions type

Variables in model	Model 1		Model 2		Model 3	
	B	Sig.	B	Sig.	B	Sig.
(H1) Perceived Media Power			.887	.003***	.608	.003***
(H2) Tangible resources			.017	.886	.019	.888
(H3) Intangible resources			.012	.001***	.014	.001***
Manufacturing	-.129	.507			-.139	.597
Finance & Insurance	.125	.501			.165	.591
Services	-.622	.010**			-.832	.013**
Regional HQ Function	.175	.351			.171	.451
Market Scope	.618	.013**			.718	.013**
Nr. other subsidiaries	.021	.344			.024	.384
Country Differences	.153	.302			.173	.402
Constant	1.722	0.37	1.893	.206	1.923	.210

Note: Standard Errors: *p < 0.10, **p < 0.05, and ***p < 0.01

Given the consistency of the results, we will only explain the full model. Hypothesis 1 stated that the lower the perceived media power in the host society, the higher the likelihood that the foreign owned firm will use fire-fighting actions rather than strategic actions to manage the media in the host country. Our results show that the lower the perceived media power the more foreign owned firms prefer to utilize fire-fighting actions to manage the media in the host country instead of strategic actions. Hence, we can accept Hypothesis 1.

Furthermore, Hypothesis 2 stressed that the less tangible resources the foreign owned firm has, the higher the likelihood that it will use fire-fighting actions rather than strategic actions to manage the media in the host country. The results indicate that the level of tangible resources of foreign owned firms have no effect on the preference for particular forms of media actions employed in the host setting. Consequently, Hypothesis 2 is rejected.

However, as stated in Hypothesis 3, the level of intangible resources determine the preference for a certain type of media actions namely the foreign owned firms with less intangible resources prefer to use fire-fighting actions to manage the media in the host country. Empirical results show that we can accept Hypothesis 3.

Empirical investigation also shows very interesting results concerning the control variables. The service (industry) dummy has significant effect on the preference of foreign owned firms to use strategic actions towards host media's influence. Another interesting finding is the relationship between the market scope and the type of media actions. Foreign owned firms with a broad market scope prefer fire-fighting actions to manage the host media. When the operations of the foreign owned firm target mainly the host country, they prefer more to develop strategic actions to insure credible reputations and prevent possible risks or threats coming from the media.

With respect to the number of other subsidiaries from the same parent in the host country, results estimates do not show significant evidence that foreign owned firms with a corporate parent that has established more subsidiaries will generally prefer a certain type of actions. Likewise, a regional headquarters function of the foreign owned firms and differences in political systems between their home and host countries do not affect the preference for the type of actions adjacent to host media.

6.6. Discussion and conclusions

Our research goal was to explore specific media actions types, respectively fire-fighting and strategic actions used by foreign owned firms to manage the host media based on a resource based perspective. Empirical results provide support for our hypotheses regarding the perceived media power in the host society and firm's intangible resources as main determinants of these actions.

To better understand the perceived media power factor analysis corroborates its most important aspects. Accordingly, as a priority list, the most important items that are associated with and contribute to the media power in the host society are: answerability, accountability, credibility. Our results confirm that foreign owned firms perceive differently the power of the media. Foreign owned firms that perceive host media as having a low impact power do not invest time and energy to design specific actions for this stakeholder (Fudenberg et al., 1994).

They perceive it as harmless for their business activities or reputation building; nor can it help them achieve legitimacy in the host setting. Therefore, they utilize fire-fighting actions to manage this low impact. However, the foreign owned firms which perceive the host media as having high impact on the host society employ strategic actions. They develop in-house employee training programs and attempt to use this impact power to their own benefits. In this way, they establish themselves among the host actors and stakeholders, build credible reputations and increase the transfer of host specific information. Sometimes, foreign owned firms even hire external lobbyists to mitigate for a certain issues on behalf of the company in order to create a certain public image. When the perceived media power is high, foreign owned firms try to build networks with this strong stakeholder in order to gain credibility in the host setting. These findings are in line with Bramson (2007).

Furthermore, another determinant for the type of actions implemented by foreign owned firms to manage the media is their intangible resources. Results suggest that, due to their liability of newness, young foreign owned firms, even though important for them, do not have the experience or legitimacy to use strategic actions. Due to their age and constraint resources, they chose fire-fighting actions to deal with the media (Mosakowski, 1998). They tend to temporarily contract media experts and public relations specialist, cooperate with media institutions to compensate for the knowledge gap created by their lack of (or low) intangible resources. However, older firms with intangible resources and experience in the host country prefer to implement strategic actions to manage the media. Older foreign owned firms indeed use strategic actions as they also have the necessary means, such as experience, knowledge base, reputation and credibility (legitimacy) and thus, they can gain more by partnering with the media; results in line with Bramson, (2007). Our results are also close to Yoffie and Bergenstein's (1985) 'political capital', which stresses the idea of accumulation over time. This public image may be a moderating factor in the public decision makers' reactions to the firm's attempt at political influencing (Dahan, 2005). Our findings are in line with the theory stream which places intangible resources as a proxy for the knowledge accumulated, the reputation and credibility build by the foreign firm among other actors or as a proxy for their social capital (Boddeyn & Brewer, 1994; Hillman & Hitt, 1999; Pennings et al., 1998).

Additionally, our data show a strong tendency of foreign owned firms from service industries towards strategic actions. Reputation and legitimacy is more important for service industry than other industries, therefore they are more preoccupied with building networks, solid reputations, and legitimacy among

stakeholders ((Hillman & Hitt, 1999). The business activities of foreign firms from service industries depend to a greater extent on reputation and legitimacy; therefore they are more sensitive to the media impact on their image, reputation, and sales reason for which they dedicate resources and strategic actions to manage this impact (Keim & Baysinger, 1988).

Furthermore, results show that foreign owned firms with a narrow market scope utilize strategic actions and the ones with boarder market scopes employ fire-fighting actions to manage the media. These results are in line with Chen (1996) who also sustains that a narrow market scope and market dependence provide strong incentives for the use of strategic actions. A broad market scope entails that the firm has many stakeholders with different and varied interests/ issues to manage, reasons for which it is difficult to develop strategic actions which are rather used for specific issues. Therefore, it is likely that firms with a broad market scope will use fire-fighting actions. For the companies with a narrow scope reputation is more important, therefore it is more likely they will chose strategic actions to build trusts and reputations among a smaller number of stakeholders.

Our exploratory study strengthens the inference that foreign firms regard the media as an important stakeholder and, therefore, consider specific actions to manage its magnitude. These actions are not only purposed at buffering the organization against media negative liability but also serve to utilize the media in order to build reputations, strengthen legitimacy, and trust among the other stakeholders in the host environment. This rationale also relates to McQuail's study (1997) who discussed the media as entailing positive and negative liabilities. Intertwining McQuail's arguments with our findings, we can regard the potential damages that media can cause to the reputation and image of the foreign owned firms as negative liabilities. Whereas, when foreign firms employ the media to build legitimacy among host stakeholders is regarded as positive liability.

However, the increasing importance of the media for foreign owned firms can be also attributed to the developments in communication technologies and to media's globalization. In recent decades, media institutions and professionals have succeeded in strengthening their position within both market and nonmarket contexts as the media links up important stakeholders of the host economy (Bardoel et al., 2001).

Given the exploratory nature of our study a multitude of future research avenues come to mind. Future research considerations might regard the role of host governments to mediate the relationship between the host media and foreign

owned firms. Furthermore, measures and routines feasible when this relationship goes wrong, also constitutes an interesting endeavor. For this reason interesting further investigations could place the notions of interactivity between the business community and the media. How foreign owned firms perceive these notions and how they appear in practice might uncover certain techniques appropriate to manage the influence of this important actor. Comparative studies are equally interesting revealing possible cultural effects and differences between countries concerning media power and impact.

CHAPTER 7

SUMMARY AND CONCLUSIONS

7.1. Summary

Over the past decades the presence and importance of foreign owned firms in the Netherlands has increased considerably and, as a result, it is currently the fifth largest recipient country of FDI in the world (UNCTAD, 2009). Despite the fact that in 2009 the global FDI had dropped with almost 40% due to the financial crisis, the Netherlands did not experience this sharp relapse in incoming FDI. Regardless of its limited market size and lack of resources, the Netherlands managed to maintain its position (UNCTAD, 2009). The Netherlands has increased its location attractiveness for foreign owned firms also through its membership to the European Union. In this host economy foreign owned firms generally experience a complexity of market and nonmarket pressures from both national and supranational institutions, of economic, regulatory, or social types. These institutions also affect their performance through an ample array of liability costs with reference to economic, social, legal, and cultural issues, hence matters outside the market spam but in conjunction with it – nonmarket issues. Therefore, we attempted to identify which nonmarket issues have a potential impact on foreign owned firms' business activities. Furthermore, we explored complementary strategies meant to manage this impact, to reduce the complexity of the nonmarket environment and to improve their competitive position in the host environment.

Our exploration commenced with Chapter one which introduced the research topic and discussed important characteristics of the Netherlands as a small open economy and host setting of the foreign owned firms.

Chapter two provided an overview of the market aspects of foreign owned firms present in the Netherlands, mainly onto the location choices and colocation patterns according to various characteristics of these firms. Before commencing the study of nonmarket matters, we found relevant to become acquainted to

these firms in terms of their idiosyncratic characteristics, location choices and colocation patterns exhibited in the host country. While the literature highlights the development of geographically concentrated areas of foreign owned firms within host countries, however, in small open economies (as the Netherlands) the agglomerative benefits remained so far unclear. Therefore, Chapter two of this study investigated the colocation patterns of foreign owned firms, their agglomeration behavior vis-à-vis domestic firms and their propensity to colocate according to country of origin, size, age, and industry. Empirical results showed that foreign firms operating in the industries of mining, construction, transport and communications, services and trade exhibit different colocation/agglomeration patterns than domestic firms from the same industries. Moreover, our results also show that the presence of foreign owned firms in many regions leads to the appearance of agglomeration economies among the foreign firms populations. This phenomenon can add to the understanding of the dissimilar colocation patterns compared to the domestic companies in the sense that the changes in agglomeration benefits for the foreign companies trigger them to take a different (co)location decisions.

However, the foreign owned firms from the industries of agriculture, forestry/fishing, and manufacturing (co)locate similarly to Dutch firms. This can be primarily explained by knowledge spillover effects between competitors in the same industry which attract them to that region. Furthermore, manufacturing firms (both foreign and domestic) also colocate in areas with easy access to imports. If manufacturing costs, taxation policy and location attractiveness differ across regions, then foreign owned firms would the tendency to agglomerate where costs are lower. Nevertheless, in the Netherlands government policy and taxation regimes are very similar across the twelve Dutch provinces; consequently taxation does not provide incentives to differentiate in location decisions. For this reason we argue that the effects of agglomeration economies, respectively pools of specialized labor and suppliers, knowledge flows, innovation and spillovers are the main reasons explaining the similarity in colocation patterns of the foreign and domestic firms from the above industries.

Generally, foreign owned firms mainly colocate in provinces with a high concentration of production factors, with good infrastructure, and which access the main gateways i.e. Noord-Brabant (20.19%), Zuid-Holland (17.23%), Noord-Holland (16.12%), and Gelderland (12.53%). The region of Noord-Brabant is also known for its technological knowledge and innovation potential, both essential benefits for foreign firms employing resource-seeking motives. When further examining colocation patterns more specifically by looking home country

(provenience), empirical results show that foreign firms coming from Belgium and Germany show dissimilar colocation patterns than firms coming from other home countries. Firms from these two countries mainly colocate in the provinces bordering Belgium and Germany. Furthermore, results regarding firms' age show that young established foreign owned firms exhibit similar colocation patterns as older firms. Young foreign owned firms colocate around the geographic clusters and concentrations of older, well established firms, as predicted by other theorists as well. Colocating with dominant firms offers particular advantages to younger ones due to resource constraints. Regarding firms' size large foreign owned firms from the trade industry follow the same colocation pattern as large local firms, i.e. in the regions with access to gateways to much bigger markets, i.e. the Central European market or the European Union market.

Once we have gained insight into the market conduct and formed a perspective view on the characteristics of foreign owned firms and their agglomeration patterns within the host country, subsequent chapters examined nonmarket matters relating to their activities. The exploration of the nonmarket subject started with chapter three by discussing the four main perspectives which contributed to the development of the nonmarket concept. Thereafter, we employed insights from these perspectives to further deepen our understanding of the components of nonmarket environment. We acknowledged the framework drawn by Baron (1995), and we further developed this framework with the nonmarket perspectives in order to explore and to gain deeper insights into what constitutes the nonmarket environment. More specifically, as constituents we discussed the various nonmarket institutions, issues, interest, and information playing a role on the nonmarket environment and how firms can manage this environment. This discussion served laid the grounds for the following chapter which empirically explored the nonmarket pressures resulting from this environment and the nonmarket actions utilized by foreign owned firms to manage such pressures.

Accordingly, chapter four studies the relation and sources of variation in the strength of institutional pressures and the nonmarket actions of foreign owned firms to deal with these pressures in an open regionally integrated economy.. We explored the most relevant nonmarket institutional pressures which influence the frequency of nonmarket actions undertaken by the foreign owned firms. Results show that pressure of national regulators can increase the frequency of nonmarket actions through the insufficient transparency of their rules and regulations, insufficient autonomy, and a short term perspective of their rules and regulations. This is consistent with Kanter (1999) and North (1990) who

delegate that national regulators normalize business activities and commonly enforce standards and safety.

Furthermore, pressures of standards agencies also contribute to an increase in the frequency of nonmarket actions; this input is explained through the costs to obtain permits, licenses, and authorizations and costs to comply with imposed standards made by the foreign firms in the host country. In the Netherlands a vast array of required permits/ standards restrict and set boundaries for business practices and activities. In line with Ogus (2002), foreign various nonmarket actions such as constituency building, lobbying and press conferences can decrease redundant expenditure made with certain new imposed standards. Interest groups also leave their prints on the business sector and foreign owned firms along by shaping their processes and outcomes for various purposes ranging from investing in a safe future and social community to preserving the environment. They increase the nonmarket actions due to their increased collective concern and high capacity to gain public opinion which make foreign firms aware of harmful consequences of certain business practices. A final institution that explains the increase in frequency of nonmarket actions is the media due to pressure and effects of high credibility, strong societal influence, and increased concern for the public interest in the host country. As a result companies increase their nonmarket (relational) actions with respect to this stakeholder (Miles & Snow, 1978).

Additionally, pressures from supranational regulators though do not directly contribute to the increase in nonmarket actions of foreign owned firms in the host country, but they show effects on national regulators, standards agencies and political institutions of that host member country. Due to the multi-level governance, supranational regulators establish directives for the national institutions while also allowing for a certain degree of flexibility and national variance. This substantiates the influence of supranational regulators on the national level institutions (Smith, 1997). Additionally to explain such result we can also employ arguments related to the specificity of the host setting, the Netherlands. A vast part of rules, regulations, directives and policy making is established by supranational (European Union) regulators and members states have to incorporate these to a great extend.

As a result of all these nonmarket institutional influences, chapter five explored nonmarket strategies implemented by foreign owned firms in order to manage these influences. We indentify how firm's characteristics and resources determine the preference for a certain strategy type. As most comprehensive and inclusive

nonmarket strategies we proposed foreseeing vs. subsequent nonmarket strategy. Six idiosyncratic determinants: size, host country experience, market scope, regional headquarters function, country difference and autonomy degree of the foreign owned firms were anticipated to affect the predilection for implementing a specific type of nonmarket strategy.

Empirical investigation showed that large foreign owned firms implement foreseeing strategies while small and medium sized ones follow subsequent strategies. Large foreign owned firms with substantial employment base in the host country need to consider certain nonmarket issues regarding provisions for their employees. They also possess the capacity and resources to develop and maintain long term co-operations with diverse nonmarket institutions. As large foreign owned firms have more assets at risk, this increases their incentives to foresee and engage within nonmarket contexts. Likewise, results show that foreign owned firms with more experience in the host country are inclined to implement subsequent strategies while the less experienced firms use foreseeing strategies. Albeit the experience of a foreign owned firm in the host country indicates commitment and repeated dealings with host nonmarket related actors and institutions, in time the firm develops tacit knowledge and abilities to deal with these matters.

However, young foreign owned firms are motivated to implement foreseeing strategies meant to develop social capital derived from the network of relationships in order to compensate for their limited experience, local reputation and credibility, and to establish themselves among the host actors. A plausible explanation could be the liability of foreignness in a host environment which affects young foreign owned firms more than older, more experienced ones.

On the other hand, foreign owned firms with a narrow market scope prefer to use foreseeing strategies over subsequent strategies. Foreign owned firms operating only on local markets are generally able to acquire extra knowledge and develop intensified interactions with nonmarket linked actors. They are more likely to uphold continuous in-depth collaborations due to the one (single) host market focus.

Empirical results also show that the function regional Headquarters significantly determines the preference for a subsequent strategy. Foreign owned firms with no Headquarters function have the possibility to focus only on host nonmarket issues and areas and, as a result, they pursue foreseeing strategies in the same nonmarket context.

Out of the plethora of nonmarket institutions affecting foreign owned firms' business operations, a reputable significance is attributed to the media. Therefore, chapter six explored specific strategic and tactical actions used by the foreign owned firms to handle the complex influences from the media on their business activities and to maximize the possible benefits seized through the means of the media's functions (such as information transfer and reputation building) from a resource base perspective. Empirical estimates provide support regarding the perceived impact of the media in the host society and host country experience as main determinants of these actions. Subsequent testing through factor analysis confirmed that the perceived media's impact in the host society is explained by several components along the lines of: media fairness; accuracy; concern for community's well being; objectivity; up-to-date coverage; factuality; independence of media's institutions; trustworthiness; concern for public interest; media's credibility; professionalism of people in the media; and confidence in media's institutions. Results show that foreign owned firms perceive differently the impact that media has in the host society and the benefits of reputation building and information transfer it can convey. Foreign owned firms which perceive the host media as having a high impact, develop in-house employee training programs, use press releases and conferences to take advantage of this impact. Through these strategic actions they establish themselves among the host actors, build credible reputations and increase the transfer of (host specific) information. Foreign owned firms also hire external lobbyists to mitigate for a certain issue on behalf of the company in order to create a public image reflecting the foreign owned firms' position on the certain issue.

With regard to the resources of the foreign owned firm, the experience and knowledge base reversibly relate to the types of actions used to benefit from media's functions or to deal with its influence. When their experience with host media institutions is deficient, foreign owned firms tend to contract media experts and public relations specialist, cooperate with media institutions to compensate for the knowledge gap created by their lack of experience. However, the foreign owned firms performing operations within services industries interact with a wider spectrum of stakeholders than other industries. As a result, they are more preoccupied about building networks and solid reputations for these stakeholders. The same rationality can be employed to explain the significant relationship between the (narrow) market scope of foreign owned firms and their preference for strategic actions. A narrow market scope is an indication for a lower range of stakeholders and interests involved with the business activities of the firm, which increases its incentive for accountable reputations and networking amongst these stakeholders.

Overall, the nonmarket behavior of foreign owned firms is explained by nonmarket institutional pressures which influence the frequency of nonmarket actions and by the specific nonmarket strategies implemented to deal with these institutions depending on firm's characteristics, their internal resources and previous international experience. Nonmarket strategies entail the management of nonmarket issues, the treatment of uncertainties or influences from the nonmarket environment, and the achievement of nonmarket interests. Nonmarket strategies are complementary strategies to encounter complex influences outside the market space, to manage the threats and opportunities from the nonmarket environment and to attain nonmarket interests that complement market activities (Baron, 1995; Bonardi, Holburn & Van den Berg, 2006; Hillman & Hitt, 1999; Prakash, 2002). These nonmarket strategies entail actions carried out in public arenas to manage nonmarket issues from various institutions and between these institutions and the firms' activities (Wartick & Mahon, 1994). Nonmarket actions entail proceedings employed in public arenas (Baron, 1995; Schaffer & Hillman, 2000) to manage issues related to a wide array of institutions, national or supranational, amongst which interest groups, political institutions, the media, regulatory institutions, standards agencies, which all constitute the nonmarket framework (North, 1990; Scott, 1995).

7.2. Concluding remarks

There is a myriad of ways in which host governments and nonmarket institutions can (directly or indirectly) affect foreign owned firms' business activities. Even in industries where government has little or no direct role, government control over the pedals of macro- and micro-economic policy is closely tied to policy decisions. Consequently, nonmarket strategies that influence public policy outcomes can potentially improve firms' overall performance. In contrast to the voluminous competitive market strategy literature, however, the ways in which firms formulate and implement nonmarket strategy has received relatively little academic attention. This study attempts to reduce this gap and the deficit caused by the lack of a theoretical framework that links nonmarket outcomes to the complex interplay between political and institutional actors, such as regulators, political institutions, standards agencies and the media. Additionally, the implicit assumption in many nonmarket studies is that public policy is determined primarily by the legislature in isolation from other policy institutions or actors. Hereby, we also focused on nonmarket strategy formulation in the context of network relationships between the firms and legislators. More generally, we argue that firms need to understand the broader public policy game (as defined by the

sequence of play, decision-making rules and players' preferences) in order to identify where their nonmarket activities will have the greatest leverage.

We advance the literature field by contending that an organization obtains a favorable regulation by its capacity to mobilize three kinds of nonmarket resources: financial (political campaign financing; interest groups campaign financing), human (the use of lobbyists and lawyers; media experts; public relations specialists), political (coalition-building; constituency building; bargaining). This further sustains the idea of connecting the firms' nonmarket demands with broader societal goals in order to gain wider support (see also Mahon & Murray, 1981; Yoffie & Bergerstein, 1985; Oberman, 1993; Boddewyn, 2000; Baron, 1995; Jacomet, 2000). The institutional approach adopted in this thesis is wider than the usual political resource approach. We include political institutions and companies but also public decision makers, regulators, supranational institutions, standards agencies, interest groups and the media. This approach is on the same line with Boddewyn's (2000) distinction between internal and external resources. An increased insight into foreign owned firms' location choices, as well as the strategic impact of these choices, helps policy development regarding agglomeration economies, industrial development, and international business.

The discussion over the present research cannot be completed without considering its limitations. Our study is still exploratory in nature particularly with regard to the development of the notion of nonmarket actions. Our results lay significant ground work for future, more deterministic procedures and analyses of similar data. However, completeness of indicator inventory is a goal always sought, but never really achieved (Chandler & Graham, 2010). This study yields a rich scan of the external nonmarket environment in which foreign owned firms operate. Our nonmarket institutional framework considers the collection of institutions pertaining to the national and supranational host environment and their factors explaining the frequency of nonmarket actions. A comparative study conducted in a different research setting would maybe expand the range of institutions and factors and increase the understanding of actions which foreign firms can utilize depending on the necessity. Future research might also deem appropriate a nonmarket-economic model which simultaneously considers both economic and nonmarket determinants of the nonmarket actions and strategies implemented by foreign owned firms. The interplay between the market and nonmarket span would help scholars and managers extend beyond the traditional market strategies and advance a new breed between the two which incorporates a wide range of constituents and relevant party delegated actions.

This study also provides further research opportunity to study and offer a general outline on the process going from nonmarket activity to superior economic performance, granting a central role to the notion of public-policy advantage. Moreover, this raises other pertinent investigation directions, such as when and how should firms lobby agencies or use the courts in order to affect public policy outcomes. While data are usually more readily available on inputs than outputs, a natural drawback is that it becomes impossible to assess empirically the effectiveness of particular strategies. This is a reputable suggestion for future investigation. Another suggestion for improvement would be to include the activity of organizing various events to cement relations with nonmarket institutions and actors. The literature has not explicitly acknowledged this practice while being extremely common. Indeed, in the context of rather cooperative governmental and media relations, many companies can organize such events to provide unique opportunities to get the undivided (and more open-minded) attention of public decision makers and journalists (Dahan, 2005). This practice is so widespread that it could be said that organizations compete in terms of originality and quality to provide such services, with very significant budgets in order to attract key actors. Dahan (2005) debates that this leads to the idea of a 'recreational skill' provided by the firm, and valued by both public decision makers and journalists, which will often be part of a wider public relations campaign. This resource is a useful way to get a privileged access to a nonmarket actor (Dahan, 2005). Inferring into the integration level of market and nonmarket strategies would also reveal interesting insights into the practical efforts and importance assigned to the former.

Another important idea for future research is validated by the growing literature advocating the integration of market and nonmarket strategies and the effect on firm performance (Shaffer et al., 2000; Levy & Egan, 2003; Ma, 2004; Bonardi et al., 2006). The need to combine these nonmarket strategies with market factors into an overall corporate strategy has been stressed out in order to contribute to a firm's competitiveness. Such a combined strategy offers opportunities for firms in general and foreign owned firms in particular, who face a liability towards domestic firms in the host country due to their foreignness (Hymer, 1976; Miller, 1991; Zaheer, 2001; Miller & Richards, 2002).

APPENDIX

QUESTIONNAIRE

FOREIGN OWNED SUBSIDIARIES AND THEIR BUSINESS ACTIVITIES IN THE NETHERLANDS

Thank you for taking the time to complete this questionnaire! The specific information provided by respondents in this survey will be treated anonymously and will only be available to the administrators of the survey. Directions for filling it out are provided with each question. Most questions can be answered by marking X in a box.

Whenever we talk about the your company, e refer at your organization at its current Dutch location. If your parent company has established more than one location in the Netherlands, we would like you to answer the questions for your specific company only.

If you have any questions, please contact Ms. C.L. Voinea (06-34065313)

Please return the questionnaire using the included return envelope (no stamps needed) to Ms. C. L. Voinea:

**Radboud Universiteit Nijmegen
T.a.v. C.L. Voinea
Antwoordnummer 1908
6500 HK Nijmegen**

♦ or by fax: 024-3611933

Part A BACKGROUND INFORMATION

This section is used to inquire about your company and its parent. Please follow the instructions.

About your company

Please fill in the appropriate answer.

- A1. Company's name:
- A2. Number of employees at this Dutch location in 2008/latest known
- A3. Revenue in 2008/latest known:€
- A4. Year of establishment of this company in the Netherlands:

About your parent company

Please fill in the appropriate answer.

- A5. Name of Parent:
- A6. Location of global headquarters: Country:
- A7. Location of European headquarters: Country:
- A8. Total number of subsidiaries in the Netherlands:
- A9. Number of employees globally:
- A10. World-wide revenues in 2008/latest known:Million €

About the current business activities of your company

- A11. Please indicate the main industry sector in which your company operates.

Mark (X) all that apply. In order to select a box you have to double press on it with the left mouse button and then press on "checked" in the dialog box which appears.

- ☐ Agriculture, hunting, forestry, fishing
- ☐ Energy and water
- ☐ Chemical products; extraction and processing of non-energy minerals
- ☐ Metal manufacturing; mechanical, electrical and instrument engineering; office and data processing machinery
- ☐ Other manufacturing (eg food, drink and tobacco; textiles; clothing; paper, printing and publishing; processing of rubber and plastics, etc)
- ☐ Building and civil engineering
- ☐ Retail and distribution; hotels; catering; repairs
- ☐ Transport and communication (eg rail, postal services, telecoms, etc)
- ☐ Banking; finance; insurance; business services (eg consultancies, PR and advertising, Law firms, etc)

list continues on next page

- ☐ Personal, domestic, recreational services
- ☐ Health services
- ☐ Other services (eg television and radio, R&D, charities, etc)
- ☐ Education (including universities and further education)
- ☐ Social Services
- ☐ Public administration
- ☐ Other, please specify

A12. Please indicate the activities that are currently conducted by your company in this company.

Mark (X) all that apply.

- ☐ Marketing and Sales
- ☐ Manufacturing
- ☐ Logistics and warehousing
- ☐ Research and Development
- ☐ Regional Headquarters' activities

A13. What is the destination of your company's sales from the Netherlands?

Please indicate which percentage share of your total sales is going to this particular country/area.

Netherlands.....%

European Union country %

Parent country %

Central and Eastern European Countries %

North America %

Japan %

Rest of Asia%

Rest of the World %

A14. Is your company considering a future relocation outside the Netherlands?

- ☐ yes, please answer question A15
- ☐ no, please skip to question A16

A15. What are the reasons for your company's relocation plans?

Please indicate the most important ones.

A

B

C

A16. Compared to similar firms in your industry sector how would you rate the performance of your company in relation to the following?

Mark (X) all that apply for each area.

	Best 20%	Top 60-80%	average 40-60%	low 20-40%	lowest 20%
<input type="checkbox"/> Service quality	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/> Productivity level	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/> Profitability	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/> Market share	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/> Rate of innovation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/> Total sales growth	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

The relationship of your company with the Headquarters

A17. Is your company acting as a regional Headquarters for Europe? ☐ yes

☐ no

A18. Does your company have a mission statement?

☐ yes, please answer question A19

☐ no, please skip to question A20

A19. Is the mission statement of your company?

☐ derived from the parent company

☐ independent mission statement specific to your company

A20. Please indicate where decisions on the following issues for your company are mainly determined:

Mark (X) all that apply.

	HQ of parent company	company level
Business strategy	<input type="checkbox"/>	<input type="checkbox"/>
Marketing and sales activities	<input type="checkbox"/>	<input type="checkbox"/>
Manufacturing activities	<input type="checkbox"/>	<input type="checkbox"/>
Logistics activities	<input type="checkbox"/>	<input type="checkbox"/>
Research and development activities	<input type="checkbox"/>	<input type="checkbox"/>
Industrial relations	<input type="checkbox"/>	<input type="checkbox"/>
Relations with government	<input type="checkbox"/>	<input type="checkbox"/>
Relations with interest groups	<input type="checkbox"/>	<input type="checkbox"/>

list continues on next page

Relations with media	<input type="checkbox"/>	<input type="checkbox"/>
Press releases	<input type="checkbox"/>	<input type="checkbox"/>
Relations with political arena	<input type="checkbox"/>	<input type="checkbox"/>
Involvement in politics	<input type="checkbox"/>	<input type="checkbox"/>
Business associations participation	<input type="checkbox"/>	<input type="checkbox"/>
Coalitions forming with other firms	<input type="checkbox"/>	<input type="checkbox"/>
Constituency building	<input type="checkbox"/>	<input type="checkbox"/>
Internal monitoring system	<input type="checkbox"/>	<input type="checkbox"/>
Financial contributions to activists causes	<input type="checkbox"/>	<input type="checkbox"/>
Financial contributions to political parties	<input type="checkbox"/>	<input type="checkbox"/>
Financial contributions to local community	<input type="checkbox"/>	<input type="checkbox"/>
Charity donations	<input type="checkbox"/>	<input type="checkbox"/>
Donations to NGOs	<input type="checkbox"/>	<input type="checkbox"/>

Please move to Part B on page 6

Part B
INSTITUTIONAL FACTORS AFFECTING BUSINESS ACTIVITIES
IN THE NETHERLANDS

We would like to understand the institutional factors that influence the business activities of foreign owned subsidiaries in the Netherlands. We have selected possible elements and for your convenience we have grouped them in 6 groups, respectively regulatory factors (Dutch and European), standards agencies factors, political factors, interest groups factors, and media factors.

Please indicate, *by marking (X) the appropriate box*, the importance of each **factor** for your company's business activities in the Netherlands on a scale ranging from 'not important at all' to 'most important'.

Dutch regulatory institutions

Please indicate the importance of the following factors related to the pressure of Dutch regulatory institutions for your business activities:

	Not important at all	not too important	neutral	fairly important	very important
B1. Long-term relations with national regulators	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
B2. Short-term relations with national regulators	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
B3. Consultations with national regulators	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
B4. Long-term perspective of national regulators on rules and regulations	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
B5. Short-term perspective of national regulators on rules and regulations	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
B6. Clarity of rules and objectives set by national regulators	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
B7. Consistency of rules and objectives set by national regulators	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
B8. Autonomy of national regulators	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
B9. Transparency of national regulators	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
B10. Predictability of national regulators	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
B11. Flexibility of national regulators	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
B12. Legislation enforcement	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
B13. National regulators legislation principles	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

B14. If the most important factors related to national regulators are missing, please use this space

to indicate these factors:

A

B

Please indicate the importance of the following actors related to Dutch regulatory institutions for your business activities:

	Not important at all	not too important	neutral	fairly important	very important
B15. Regulatory commissions	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
B16. Dutch Antitrust Authority (NMA)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
B17. Electricity Regulatory Agency	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
B18. Telecommunication Regulatory Agency	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
B19. National News Agency	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
B20. Water Supply Agency	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
B21. Financial Regulatory Group	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
B22. Health Agency	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
B23. Ombudsman (Parliamentary Commissioner)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
B24. Public Service Obligations Agency	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
B25. If the most important actors related to Dutch regulatory institutions are missing, please use this space to indicate these actors:					

A

B

European Union (E.U.) regulatory institutions

Please indicate the importance of the following factors related to pressure of E.U. regulators for your business activities:

	Not important at all	not too important	neutral	fairly important	very important
B26. Long-term relations with E.U. regulators	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
B27. Short-term relations with E.U. regulators	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
B29. Consultations with E.U. regulators	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
B29. Long-term perspective of E.U. regulators on rules and regulations	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
B30. Short-term perspective of E.U. regulators on rules and regulations	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
B31. Clarity of rules and objectives set by E.U.					

regulators	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
B32. Autonomy of E.U. regulators	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
B33. Transparency of E.U. regulators	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
B34. Predictability of E.U. regulators	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
B35. Flexibility of E.U. led legislation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
B36. E.U. legislation enforcement	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
B37. E.U. legislation principles	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
B38. E.U. business practices	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
B39. If the most important factors related to E.U. regulators are missing, please use this space to indicate these actors:					
A					
B					
Please indicate the importance of the following actors related to E.U. regulators for your business activities:					
	Not important at all	not too important	neutral	fairly important	very important
B40. European Antitrust Authority	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
B41. European Environment Agency	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
B42. European Food Safety Authority	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
B43. European Foundation for the improvement of Living and Working Conditions	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
B44. European Fundamental Rights Agency	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
B45. European Institute for Gender Equality	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
B46. European Medicines Agency	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
B47. European Network and Information Security	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
B48. European Avian Agency	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
B49. European Centre for Disease Prevention	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
B50. European Agency for the Management of Cooperation at the External Borders	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
B51. Community Fishery Control Agency	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
B52. European Training Foundation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
B53. Office for Harmonisation in the Internal Market	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
B54. If the most important actors related to the E.U. regulatory institutions are missing, please use this space to indicate these actors:					
A					
B					

Standards agencies

Please indicate the importance of the following factors related to the pressure of standards agencies for your business activities:

	Not important at all	not too important	neutral	fairly important	very important
B55. Permits, licences and authorizations	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
B56. Costs associated with permits, licences, authorizations	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
B57. Output/ product standards	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
B58. Input/ production materials and techniques standards	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
B59. Cost to comply with standards	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
B60. Prohibition for use of production materials or methods	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
B61. Self-regulation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
B62. Consumer information on quality/safety	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
B63. If the most important factors related to standards agencies are missing, please use this space to indicate these factors:					
A					
B					

B64. In your company required disclosing to customers information regarding harms or risks which may arise from the product or service? ☐ yes
☐ no

Please indicate the importance of the following actors related to the pressure of standards agencies for your business activities:

	Not important at all	not too important	neutral	fairly important	very important
B65. Foods Standard Agency	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
B66. Advertising Standards Agency	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
B67. Employment Standards Agency	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
B68. Executive Agency	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
B69. Food Safety Agency	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
B70. Trading Standards Institute	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
B71. Building Standards Agency	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
B72. If the most important actors related to standards agencies are missing, please use this space to indicate these actors:					

A

B

Political institutions

Please indicate the importance of the following factors related to the pressure of political institutions on your business activities:

	Not important at all	not too important	neutral	fairly important	very important
B73. Demand of public policy	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
B74. Low saliency (issues with low public interest)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
B75. High saliency (high public interest on issues)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
B76. High competition on political arena	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
B77. Low competition on political arena	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
B78. High number of new policies	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
B79. Policy flexibility	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
B80. Costs for obtaining desired policy outcomes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
B81. Costs of political involvement	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
B82. If the most important politically related factors are missing, please use this space to indicate these factors:					

A

B

Please indicate the importance of the following politically related actors for your business activities:

	Not important at all	not too important	neutral	fairly important	very important
B83. Social-Economic Council	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
B84. The cabinet	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
B85. The parliament	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
B86. Judicial System	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
B87. Policy makers	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
B88. Political parties	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
B89. Municipalities	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
B90. Waterboards	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
B91. Provincial Council	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

B92. Provincial Executive ☐ ☐ ☐ ☐ ☐

B93. If the most important politically related actors are missing, please use this space to indicate these actors:

A

B

Interest groups

Please indicate the importance of the following factors related to the pressure of interest groups for your business activities:

	Not important at all	not too important	neutral	fairly important	very important
B94. High ability of interest groups in gaining public opinion	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
B95. Legitimacy of interest groups	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
B96. Power of interest groups	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
B97. Interest groups using direct lobbying	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
B98. Interest groups using letter-writing campaigns	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
B99. Interest groups focusing on consumer issues	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
B100. Interest groups focusing on environmental issues	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
B101. Interest groups focusing on minority rights	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
B102. Interest groups focusing on economic issues	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

B103. If the most important factors related to interest groups are missing, please use this space to indicate these factors:

A

B

Please indicate the importance of the following actors related to interest groups for your business activities:

	Not important at all	not too important	neutral	fairly important	very important
B104. Citizen groups	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
B105. Business groups	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
B106. Business umbrella associations	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

- | | | | | | |
|--------------------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| B107. Professional bodies | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| B108. Trade unions | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| B109. Non-governmental organizations | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| B110. Fire brigades | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
- B111. If the most important actors related to interest groups are missing, please use this space to indicate these actors:

A

B

Media

Please indicate the importance of the following media related factors pressuring your business activities:

- | | Not
important
at all | not too
important | neutral | fairly
important | very
important |
|--|----------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| B112. Media fairness | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| B113. Report the whole story/completeness | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| B114. Media accuracy | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| B115. Respect for privacy | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| B116. Timeliness/up-to-date coverage | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| B117. Watching out after peoples' interest | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| B118. Concern for community well being | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| B119. Separation of fact and opinion | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| B120. Trustworthiness | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| B121. Concern for public interest | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| B122. Factuality/objectivity | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| B123. Independence of media | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| B124. Influence of media in community | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| B125. Professionalism/training of
people in the media | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| B126. Confidence in media institutions | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

B127. If the most important factors related to media are missing, please use this space to indicate these factors:

A

B

Please indicate the importance of the following media actors for your business activities:

	Not important at all	not too important	neutral	fairly important	very important
B128. News media	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
B129. Internet	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
B130. Newspapers	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
B131. Radio broadcasters	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
B132. Television (Dutch Broadcasting Foundation)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
B133. Satellite television	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
B134. If the most important actors related to media are missing, please use this space to indicate these actors:					
A					
B					

Part C

NONMARKET STRATEGIES

In this section, we would like to find out which actions foreign owned subsidiaries undertake to cope with (factors related to) the Dutch regulatory, supporting and political institutions, interest groups and the media that influence your current business activities in the Netherlands. We label these actions as being nonmarket strategies.

Please indicate, by marking (X) the appropriate box, the importance of each action on a scale ranging from 'not important at all' to 'most important'.

	never	rarely	regularly	very frequently	continuously
C1. Business associations participation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
C2. Partnerships to influence a political issues	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
C3. High attention given to interest groups	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
C4. Supply of technical reports	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
C5. Press releases	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
C6. Testimonies in expert hearings	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
C7. Contributions to political parties	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
C8. Presence of firm members	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

in political parties	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
C9. Employing people with political experience	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
C10. Employee training for trade unions participation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
C11. Employee training for media relations	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
C12. Hiring/contracting of PR specialists	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
C13. Hiring/contracting of media experts	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
C14. Hiring/contracting of PR external lobbyists	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
C15. Developing an internal prevention system	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
C16. Developing an internal monitoring system	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
C17. Pro-active changing or Self-regulation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
C18. Building socially responsible reputations	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
C19. Building a recalcitrant reputation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
C20. Challenge of government regulations	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
C21. Interactions with local governments	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
C22. Interactions with national governments	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
C23. Active cooperation with Dutch institutions	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
C24. Ad-hoc cooperation with Dutch institutions	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
C25. If other, please specify					
A					
B					
C26. Does your company have a clearly established set of actions in order to deal with the Dutch institutions?					
	<input type="checkbox"/> yes				
	<input type="checkbox"/> no				
C27. Do you provide Dutch <i>local</i> governments (provinces or municipalities) with your products or services?					
	<input type="checkbox"/> yes.% of sales in 2008/latest known				
	<input type="checkbox"/> no				
C28. Do you provide Dutch <i>national</i> government (ministries) with your products or services?					
	<input type="checkbox"/> yes,% of sales in 2008/latest known				
	<input type="checkbox"/> no				

Thank you very much for your co-operation and the time you spent completing this questionnaire!

If you would like to receive a summary with the results of this survey, please fill in your contact address here:

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SUMMARY

Over the past decades the presence and importance of foreign owned firms in the Netherlands has increased considerably. As a result, the Netherlands is currently the fifth largest recipient country of foreign direct investment (FDI) in the world (UNCTAD, 2009). Despite the fact that in 2009 the global FDI had dropped with almost 40% due to the financial crisis, the Netherlands did not experience this sharp relapse in incoming FDI. Regardless of its limited market size and lack of resources, the Netherlands managed to maintain its position. In this host economy foreign owned firms generally experience a complexity of market and nonmarket pressures from both national and supranational institutions, of economic, regulatory, or social nature. These institutions affect the performance of foreign owned firms through an ample array of liability costs with reference to economic, social, legal, and cultural issues, hence matters outside the market spam but in conjunction with it – nonmarket issues. The current research attempted to identify which nonmarket issues have a potential impact on foreign owned firms' business activities. Accordingly, we explored complementary strategies meant to manage this impact, to reduce the complexity of the nonmarket environment and to improve the competitive position of foreign firms in the host environment.

Our exploration commences by introducing important characteristics of the Netherlands as a small open economy and suitable host setting for the foreign owned firms as well as presenting the research topics in Chapter one.

Chapter two provided an overview of the market aspects of various types of foreign owned firms present in the Netherlands, their location choices and colocation patterns according to various characteristics of these firms. Before commencing the study of nonmarket matters, we found relevant to become acquainted to the foreign firms in terms of their idiosyncratic characteristics, location choices and colocation patterns exhibited in the host country. While the literature highlights the development of geographically concentrated areas of foreign owned firms within host countries, however, in small open economies (as the Netherlands) the agglomerative benefits remained so far unclear. Therefore, Chapter two of this study investigated the colocation patterns of foreign owned firms, their agglomeration behavior vis-à-vis domestic firms and

their propensity to colocate according to country of origin, size, age, and industry. Generally, foreign owned firms mainly colocate in provinces with a high concentration of production factors, with good infrastructure, and which access the main gateways i.e. Noord-Brabant (20.19% of the total population of foreign firms), Zuid-Holland (17.23% of the total population of foreign firms), Noord-Holland (16.12% of the total population of foreign firms), and Gelderland (12.53% of the total population of foreign firms). The region of Noord-Brabant is also known for its technological knowledge and innovation potential, both essential benefits for foreign firms employing resource-seeking motives. When examining colocation patterns according to home country (provenience of foreign firms), empirical results show that foreign firms coming from Belgium and Germany show dissimilar colocation patterns than firms coming from other home countries. Firms from these two countries mainly colocate in the provinces bordering Belgium and Germany. Furthermore, results regarding firms' age show young foreign owned firms colocate around the geographic clusters and concentrations of older, well established firms, as predicted by other theorists as well. Collocating with dominant more experienced firms offers particular advantages to younger ones by helping them overcome certain resource constraints. Regarding firms' size, large foreign owned firms from the trade industry follow the same colocation pattern as large local firms, i.e. in the regions representing gateways to much bigger markets, i.e. the Central European market or the European Union market.

When comparing the agglomeration behavior of foreign firms with their domestic counterparts, empirical results showed that foreign firms operating in the industries of mining, construction, transport and communications, services and trade exhibit different colocation/ agglomeration patterns than domestic firms from the same industries. Our results also illustrate that the initial presence of foreign owned firms in many regions attracts the appearance of agglomeration economies among populations of foreign firms. This phenomenon can add to the understanding of the dissimilar colocation patterns compared to the domestic companies in the sense that the changes in agglomeration benefits for the foreign companies trigger them to take a different (co)location decisions.

Conversely, the foreign owned firms operating in the industries of agriculture, forestry/fishing, and manufacturing (co)locate similarly to Dutch firms. This can be primarily explained by knowledge spillover effects between players in the same industry which attract them to that region. Furthermore, manufacturing firms (both foreign and domestic) also colocate in areas with easy access to imports. If manufacturing costs, taxation policy and location attractiveness differ across

regions, then foreign owned firms would have the tendency to agglomerate where costs are lower. Nevertheless, in the Netherlands government policy and taxation regimes are very similar across the twelve Dutch provinces. Consequently, taxation issues do not provide incentives to differentiate in location decisions. For this reason we argue that the effects of agglomeration economies, respectively pools of specialized labor and suppliers, knowledge flows, innovation and spillovers are the main reasons explaining the similarity in colocation patterns of the foreign and domestic firms operating in the manufacturing industry, agriculture industry, and forestry/ fishing industries.

Once we have formed a perspective view on the characteristics of foreign owned firms operating in the Netherlands, and gained insight into their market conduct and agglomeration patterns, subsequent chapters examined nonmarket matters relating to their business activities. The exploration of the nonmarket topic started with the four main theoretical perspectives which contributed to the development of the nonmarket concept (chapter three). We acknowledged the framework drawn by Baron (1995), and we further developed this framework in order to explore and to gain deeper insights into what constitutes the nonmarket environment. More specifically, as main constituents we discussed various nonmarket institutions, issues, interest, and information playing a role on the nonmarket environment and how firms can manage this environment. This discussion laid the grounds for the following chapter which empirically explored the nonmarket institutional pressures on the activities of foreign firms and the nonmarket actions utilized by these firms to manage such pressures.

Accordingly, chapter four studies the relation and sources of variation in the strength of institutional pressures and the nonmarket actions of foreign owned firms to deal with these pressures in the open regionally integrated economy of the Netherlands. We explored the most relevant nonmarket institutions which influence the frequency of nonmarket actions undertaken by the foreign owned firms. Results show that pressure of national regulators can increase the frequency of nonmarket actions through the insufficient transparency of their rules and regulations, insufficient autonomy, and a short term perspective of rules and regulations. This is consistent with Kanter (1999) and North (1990) who delegate that national regulators normalize business activities and commonly enforce standards and safety.

Furthermore, pressures of standards agencies also contribute to an increase in the frequency of nonmarket actions. This input is explained through the costs to obtain permits, licenses, and authorizations and costs to comply with imposed

standards made by the foreign firms. In the Netherlands a vast array of required permits/ standards restricts and set boundaries for business practices and activities. In line with Ogus (2002), foreign firms can utilize various nonmarket actions such as constituency building, lobbying and press conferences to decrease redundant expenditure made with certain new imposed standards. Interest groups also leave their prints on the business sector and foreign owned firms along. For various purposes ranging from investing in a safe future and social community to preserving the environment, interest groups shape their business processes and outcomes. These groups increase the frequency of nonmarket actions through a high capacity to gain public opinion which makes foreign firms aware of harmful consequences of certain business practices. A final institution that explains the increase in frequency of nonmarket actions is the media. Due to its high credibility, strong societal influence, and increased concern for the public interest in the host country, foreign companies become aware of the potential influence of this institution and increase their nonmarket (relational) actions with respect to this stakeholder (Miles & Snow, 1978).

Overarching, supranational regulators do not directly contribute to the increase in nonmarket actions of foreign owned firms in the host country. Due to the multi-level governance, supranational regulators establish directives for the national institutions while also allowing for a certain degree of flexibility and national variance. Thus, supranational institutions show effects on national level institutions; more specifically they influence national regulators, standards agencies and political institutions (Smith, 1997). To further explain such result we can also employ arguments related to the specificity of the Dutch host setting. A vast part of rules, regulations, directives and policy making is established by supranational (European Union) regulators and, at national level, members states have to incorporate these to a great extent.

After exploring nonmarket institutional influences, chapter five indentified how firm level characteristics and resources determines the preference for a certain strategy type to manage these influences. As most comprehensive and inclusive nonmarket strategy types we proposed foreseeing vs. subsequent nonmarket strategy. Six idiosyncratic determinants: size, host country experience, market scope, regional headquarters function, country difference and autonomy degree of the foreign owned firms were anticipated to affect the predilection for implementing a specific type of nonmarket strategy.

Empirical investigation showed that large foreign owned firms implement foreseeing strategies while small and medium sized companies follow subsequent

strategies. Large foreign owned firms with substantial employment base in the host country need to consider certain nonmarket issues regarding provisions for their employees. They also possess the capacity and resources to develop and to maintain long term co-operations with diverse nonmarket institutions. As large foreign owned firms have more assets at risk, this increases their incentives to foresee and engage within nonmarket contexts.

Likewise, results show that foreign owned firms with more experience in the host country are inclined to implement subsequent strategies while the less experienced firms use foreseeing strategies. Albeit the experience of a foreign owned firm in the host country indicates commitment and repeated dealings with host nonmarket related actors and institutions, in time the firm develops tacit knowledge and abilities to deal with these matters.

Regarding market scope as a determinant for a certain type of nonmarket strategy, foreign owned firms with a narrow market scope prefer to use foreseeing strategies over subsequent strategies. Foreign owned firms operating only on local markets are generally able to acquire extra knowledge and to develop intensified interactions with nonmarket linked actors. They are more likely to uphold continuous in-depth collaborations due to the one (single) host market focus.

Empirical results also show that the function regional headquarters significantly determines the preference for a subsequent strategy. Foreign owned firms with no headquarters function have the possibility to focus only on single/ fewer host nonmarket issues and areas and, as a result, they pursue foreseeing strategies in the same nonmarket context.

From previous analysis conducted in chapter four it resulted that out of the plethora of nonmarket institutions affecting foreign owned firms' business operations, a reputable significance is attributed to the media. Therefore, chapter six took a deeper insight into this important institution by exploring, from a resource base perspective, specific strategic and tactical actions used by the foreign owned firms to handle the complex influences from the media on their business activities and to maximize the possible benefits seized through the means of the media's functions (such as information transfer and reputation building). Empirical estimates illustrate that the perceived impact of the media in the host society and host country experience are the main determinants of these tactical or strategic actions. Furthermore, factor analysis confirmed that the perceived media's impact in the host society is explained by several components along the lines of: media fairness; accuracy; concern for community's well being; objectivity;

up-to-date coverage; factuality; independence of media's institutions; trustworthiness; concern for public interest; media's credibility; professionalism of people in the media; and confidence in media's institutions. Foreign owned firms perceive differently the impact that media has in the host society and the benefits it can convey (reputation building and information transfer). Accordingly, firms which perceive the host media as having a high impact, develop in-house employee training programs, use press releases and conferences to utilize this impact to their advantage. Through these actions they establish themselves among the host actors, build credible reputations and increase the transfer of (host specific) information. Foreign owned firms also hire external lobbyists to mitigate for a certain issue on behalf of the company in order to create a public image reflecting the foreign owned firms' position on the certain issue.

With regard to the resources of the foreign owned firm, experience and knowledge base reversibly relate to the types of actions used to benefit from media's functions or to deal with its influence. When their experience with host media institutions is scarce, foreign owned firms tend to contract media experts and public relations specialists; cooperate with media institutions to compensate for the knowledge gap created by their lack of experience. However, foreign owned firms operating within services industries interact with a wider spectrum of stakeholders than other industries. As a result, these firms are more preoccupied with building networks and solid reputations for and with their stakeholders. The same reasoning can explain the significant relationship between the foreign owned firms with a narrow market scope and their preference for strategic actions. A narrow market scope is an indication for a lower range of stakeholders and interests involved with the business activities of the firm, which increases its incentive for accountable reputations and networking amongst these stakeholders.

Overall, the nonmarket behavior of foreign owned firms is determined by nonmarket institutional pressures which dictate the frequency of nonmarket actions and specific strategies implemented to deal with these institutional pressures. Nonmarket strategies are complementary strategies to encounter complex influences outside the market space, to manage the threats and opportunities from the nonmarket environment and to attain nonmarket interests that complement market activities (Baron, 1995; Bonardi, Holburn & Van den Berg, 2006; Hillman & Hitt, 1999; Prakash, 2002). These nonmarket strategies entail actions carried out in public arenas to manage nonmarket issues from various institutions and between these institutions and the firms' activities (Wartick & Mahon, 1994). Nonmarket actions entail proceedings employed in

public arenas (Baron, 1995; Schaffer & Hillman, 2000) to manage issues related to a wide array of institutions, national or supranational, amongst which interest groups, political institutions, the media, regulatory institutions, standards agencies, which all constitute the nonmarket framework (North, 1990; Scott, 1995). Main predictors of these strategies and nonmarket actions result from firm's characteristics, their internal resources and previous international experience.

SAMENVATTING

Tegen de stroom in: Niet-marktgerelateerde strategieën van buitenlandse bedrijven

Ondanks het feit dat Nederland relatief klein is in omvang, is Nederland in de afgelopen decennia toch een interessant land geweest voor buitenlandse bedrijven om in te investeren. Zelfs toen in 2009 het wereldwijde totaal aan directe buitenlandse investeringen (FDI) door de financiële crisis met bijna 40% daalde, was de daling in Nederland aanzienlijk minder. Nederland staat momenteel vijfde op de wereldranglijst van landen die de meeste directe buitenlandse investeringen (FDI) ontvangen (UNCTAD, 2009). Een belangrijke reden voor de aantrekkelijkheid van Nederland voor buitenlandse bedrijven is dat Nederland een open economie heeft en dat Nederland ook een van de belangrijkste toegangspoorten is tot de grote Europese markt. Nederland is een van de grondleggers van de huidige Europese Unie en speelt nog steeds een actieve rol in de verdere ontwikkeling van de Europese integratie. De unieke positie van Nederland creëert interessante mogelijkheden voor buitenlandse bedrijven om zaken te doen in Nederland of elders in de Europese Unie. Echter doordat Nederland onderdeel is van de Europese Unie is de context waarin bedrijven opereren ook ingewikkelder dan wanneer bedrijven opereren in landen die geen onderdeel zijn van een regionale samenwerking. Buitenlandse bedrijven in Nederland hebben niet alleen te maken met binnenlandse instituten zoals mededingingsautoriteiten, reguleringsautoriteiten, media, landelijke en lokale overheden en belangenorganisaties, maar worden in hun functioneren ook beïnvloed door internationale instituten zoals de Europese Commissie, het Europees Parlement en buitenlandse overheden. De invloed van deze instituten bestaat uit een breed scala aan kosten, gerelateerd aan economische, sociale, legale en culturele zaken; zaken die buiten de markt op zich liggen maar er wel mee in verbinding staan – de zogenaamde niet-marktgerelateerde zaken. Dit promotieonderzoek heeft getracht te identificeren welke niet-marktgerelateerde zaken mogelijk invloed uitoefenen op de activiteiten van buitenlandse bedrijven in Nederland. Wij hebben de strategieën bestudeerd die bedoeld zijn om deze invloeden in goede banen te leiden, om de complexiteit van de niet-marktgerelateerde invloeden te reduceren en om de concurrentiepositie van buitenlandse bedrijven in de gasteconomie te versterken.

Onze verkenning begint in het eerste hoofdstuk met een introductie van enkele belangrijke eigenschappen van Nederland, met zijn kleine, open economie en zijn geschiktheid als gastland voor buitenlandse bedrijven en met een uiteenzetting van de onderzoeksvragen voor deze dissertatie.

Het tweede hoofdstuk biedt een overzicht van de marktaspecten van verschillende soorten buitenlandse bedrijven die actief zijn in Nederland en hun locatie- en colocationkeuzes in verband met de verschillende karakteristieken deze bedrijven. Enkel met dit inzicht is het mogelijk vervolgens de niet-markt gerelateerde zaken te bestuderen. Hoewel de literatuur zich met name heeft gericht op het ontstaan van een geografische concentratie van buitenlandse bedrijven binnen een groot land zoals de Verenigde Staten van Amerika, zijn de agglomeratieontwikkelingen in kleine, open economieën (zoals Nederland) in het algemeen onderbelicht gebleven. Het tweede hoofdstuk van dit onderzoek gaat daarom in op de colocationkeuzes van buitenlandse bedrijven, hun agglomeratiegedrag met betrekking tot binnenlandse bedrijven en hun neiging om zich te vestigen bij bedrijven uit het zelfde land, van het zelfde formaat, van de zelfde leeftijd en/of uit de zelfde sector. In het algemeen vestigen buitenlandse bedrijven zich in provincies met een hoge concentratie productiefactoren, met een goede infrastructuur en met goede toegankelijkheid van hoofdknooppunten, zoals Noord-Brabant (20,19% van het totaal aantal buitenlandse bedrijven is hier gevestigd), Zuid-Holland (17,23% van het totaal aantal buitenlandse bedrijven is hier gevestigd), Noord-Holland (16,12% van het totaal aantal buitenlandse bedrijven is hier gevestigd) en Gelderland (12,53% van het totaal aantal buitenlandse bedrijven is hier gevestigd). De provincie Noord-Brabant staat bekend om de concentratie van technologische kennis en het innovatievermogen, beide zijn essentiële elementen voor een buitenlands bedrijf dat nieuw technologische kennis zoekt. Nader statistisch onderzoek van het colocationgedrag naar land van herkomst (van het buitenlandse bedrijf) laat zien dat buitenlandse bedrijven afkomstig uit België en Duitsland afwijkend gedrag vertonen ten opzichte van bedrijven afkomstig uit andere landen. Bedrijven uit deze twee landen vestigen zich voornamelijk in de provincies die aan België en Duitsland grenzen. Verder valt het ook op dat jongere buitenlandse bedrijven zich voornamelijk vestigen rondom de geografische clusters waar oudere, gevestigde bedrijven zich hebben gevestigd, zoals ook is aangetoond door de bevindingen uit andere onderzoeken. Colocation met dominante, ervaren bedrijven helpt jongere bedrijven om eventuele beperkingen met betrekking tot resources en capaciteiten te overwinnen. Wanneer gekeken wordt naar de omvang van de bedrijven, is te zien dat grote buitenlandse bedrijven de zelfde locaties kiezen als grote Nederlandse bedrijven.

Wanneer de geografische spreiding van buitenlandse bedrijven die zich bezighouden met mijnbouw, bouw, transport en communicatie, dienstverlening en handel, wordt vergeleken met die van binnenlandse bedrijven in deze sectoren, dan valt op dat zij een ander vestigingsgedrag tentoonspreiden. De resultaten laten ook zien dat de aanwezigheid van een aantal buitenlandse bedrijven in verschillende provincies een agglomeratie van buitenlandse bedrijven in gang hebben gezet. Buitenlandse bedrijven die zich bezighouden met land-, tuin- en bosbouw, visserij en industriële productie laten echter wel een vestigingsgedrag zien dat overeenkomt met dat van Nederlandse bedrijven. Dit vestigingsgedrag is voornamelijk te verklaren door het belang van kennisoverdracht tussen verschillende gelijksoortige bedrijven om hun prestaties te handhaven of te verbeteren. Zowel binnenlandse als buitenlandse bedrijven in de industriële productie kiezen bovendien locaties met een goede ontsluiting voor import. Wanneer de productiekosten en de (fiscale) wet- en regelgeving regionaal verschillen, dan hebben buitenlandse bedrijven de neiging om zich te vestigen waar de kosten het laagst zijn. In Nederland is de (fiscale) wet- en regelgeving in alle provincies echter vrijwel identiek. Fiscale belangen zullen dus nauwelijks meespelen in de besluitvorming wanneer een locatie gekozen moet worden. De belangrijke redenen van de overeenkomst in geografische spreiding van buitenlandse en binnenlandse bedrijven in de industriële productie, land-, tuin- en bosbouw en visserij zijn dus de effecten van agglomeratie-economieën, respectievelijk de concentratie van gespecialiseerde mankracht en leveranciers en overdracht van kennis en innovaties.

Nadat de eigenschappen van binnen Nederland actieve buitenlandse bedrijven in perspectief zijn gezet en er inzicht is verkregen in hun marktgedrag en geografisch spreidingspatroon, gaan de volgende hoofdstukken in op de niet-marktgerelateerde zaken van buitenlandse bedrijven in Nederland. Het verkennen van het vraagstuk niet-marktgerelateerde (nonmarket) zaken begint met de vier belangrijkste theoretische perspectieven die hebben bijgedragen aan de ontwikkeling van het niet-marktconcept (hoofdstuk drie). Het kader dat is opgezet door Baron (1995) is verder uitgewerkt om de wereld van de niet-marktgerelateerde zaken te onderzoeken en er een beter inzicht in te krijgen. De hoofdcomponenten van het kader zijn de niet-marktgerelateerde instituten, zaken, belangen en informatie. Dit hoofdstuk vormt de basis voor het volgende hoofdstuk, waarin empirisch onderzoek wordt gedaan naar de invloeden van niet-marktgerelateerde organisaties/instituten op de activiteiten van buitenlandse bedrijven en naar welke niet-marktgerelateerde acties door deze bedrijven worden gebruikt om de invloeden te beheersen of te reduceren.

In overeenstemming daarmee bekijkt hoofdstuk vier de relatie en bronnen van variatie van institutionele invloeden en de niet-marktgerelateerde acties van buitenlandse bedrijven om met deze invloeden om te gaan in een open economie die onderdeel is van een groter economische geheel. We hebben de meest relevante niet-marktgerelateerde instituten die de frequentie van de niet-marktgerelateerde acties van buitenlandse bedrijven beïnvloeden onderzocht. De resultaten laten zien dat invloed van de nationale wetgever de frequentie van niet-marktgerelateerde acties van buitenlandse bedrijven kan verhogen door onvoldoende transparante wet- en regelgeving, onvoldoende autonomie en door een korte-termijn-perspectief van wet- en regelgeving. Deze bevinding komt overeen met Kanter (1999) en North (1990) die hebben laten zien dat nationale overheden zakelijke activiteiten moeten normaliseren en gezamenlijk standaarden en veiligheid moeten handhaven.

Toenemende invloed van instituten die verantwoordelijk zijn voor standaardisatie dragen ook bij aan een toename van de frequentie van niet-marktgerelateerde acties door buitenlandse bedrijven in Nederland. Deze relatie is te verklaren door de kosten die de buitenlandse bedrijven moeten maken om vergunningen, licenties en toestemmingen te verkrijgen en om te voldoen aan opgelegde standaarden. In Nederland worden bedrijven en zakelijke activiteiten begrensd en beperkt door een zeer breed scala aan verplichte vergunningen en standaarden. Buitenlandse bedrijven kunnen verschillende niet-marktgerelateerde strategieën gebruiken zoals het creëren van draagvlak, lobbyen en persconferenties in een poging om de uitgaven voor nieuwe verplichte standaarden te beperken. Belangengroepen drukken ook hun stempel op de zakelijke wereld en daardoor ook op de buitenlandse bedrijven. Voor redenen die uiteenlopen van investeren in een veilige toekomst en een sociale samenleving tot milieubescherming, kunnen belangengroepen direct en indirect de bedrijfsprocessen en -resultaten van de bedrijven beïnvloeden. Deze belangengroepen beïnvloeden vaak de publieke opinie waardoor bedrijven zich bewust worden van mogelijke schadelijke gevolgen van bepaalde bedrijfsprocessen- en besluiten. Om de publieke opinie te beïnvloeden zullen bedrijven als reactie meer gebruik maken van niet-marktgerelateerde acties. Een laatste instituut die de toename van niet-marktgerelateerde actie verklaart, zijn de media. Door de grote geloofwaardigheid van de media, hun sterke invloed op de samenleving en hun groeiende bezorgdheid over het publieke belang van het gastland, beginnen buitenlandse bedrijven zich te realiseren hoe groot deze potentiële invloed is en zullen daarom meer gebruik maken van niet-marktgerelateerde acties om daaraan recht te doen (Miles & Snow, 1978).

Overkoepelende, supranationale autoriteiten dragen niet direct bij tot de toename van niet-marktgerelateerde acties van buitenlandse bedrijven in het gastland. Door hun gelaagde organisatie, stellen supranationale autoriteiten richtlijnen op voor nationale instituten, met een zekere mate van flexibiliteit die lokale variaties toelaat. Supranationale instituten hebben dus effect op instituten op landelijk niveau; zij beïnvloeden landelijke wetgevers, standaardiserende en politieke instituten (Smith, 1997). Het gebrek aan invloed wordt nader verklaard door aspecten die te maken hebben met de specificiteit van de positie van Nederland als gastland. Een groot deel van de wetten, regels, richtlijnen en politiek wordt op supranationaal niveau (Europese Unie) bepaald en wordt door de lidstaten op nationaal niveau zeer ver doorgevoerd.

Nadat de niet-marktgerelateerde institutionele invloeden zijn onderzocht, gaat het vijfde hoofdstuk in op hoe de voorkeur voor een bepaald soort strategie om met deze invloeden om te gaan wordt beïnvloed door de specifieke eigenschappen van het bedrijf en door de beschikbare resources en vaardigheden. Als meest uitvoerige niet-marktgerelateerde strategieën dragen wij een indeling in proactieve (vooruitziende) en reactieve niet-marktgerelateerde strategieën aan. Er wordt onderzocht of de grootte, ervaring in het gastland, marktomvang, functie als regionaal hoofdkantoor, landsverschillen en mate van autonomie van de buitenlandse bedrijven invloed hebben op de voorkeur voor een van de twee hoofdgroepen niet-marktgerelateerde strategie.

Empirisch onderzoek laat zien dat grote buitenlandse bedrijven proactieve strategieën ten uitvoer brengen, terwijl kleine en middelgrote bedrijven het houden bij reactieve strategieën. Grote buitenlandse bedrijven met een flink aantal werknemers in het gastland moeten bepaalde niet-marktgerelateerde zaken in ogenschouw nemen met betrekking tot voorzieningen voor hun werknemers. Zij hebben ook de capaciteit en de middelen om een langdurige samenwerking op te bouwen en te onderhouden met verschillende niet-marktgerelateerde instituten. Omdat grote buitenlandse bedrijven meer risico lopen met betrekking tot hun investeringen in het gastland, zijn zij ook meer bereid om een proactieve houding aan te nemen met betrekking tot niet-marktgerelateerde zaken. De resultaten tonen ook aan dat buitenlandse bedrijven met meer ervaring in het gastland de neiging hebben om vaker reactieve strategieën te gebruiken terwijl bedrijven met minder ervaring juist een voorkeur hebben voor proactieve strategieën. Hoewel de ervaring van een buitenlands bedrijf in het gastland een zekere verbintenis en herhaalde interactie met niet-marktgerelateerde instituten in het gastland impliceert, ontwikkelt het bedrijf in de loop der tijd onderhandse kennis en ervaring over hoe met zulke zaken omgegaan moet worden.

Met betrekking tot de marktomvang als bepalende factor voor een bepaald soort niet-marktgerelateerde strategie, blijkt dat buitenlandse bedrijven die zich voornamelijk richten op de binnenlandse markt eerder proactieve strategieën gebruiken dan reactieve strategieën. Buitenlandse bedrijven die zich concentreren op alleen de binnenlandse afzetmarkt kunnen extra kennis vergaren en intensieve contacten opbouwen met de relevante niet-marktgerelateerde instituten. Het is waarschijnlijker dat zij diepgaande samenwerkingsverbanden aangaan vanwege hun focus op slechts een enkele afzetmarkt.

Empirische resultaten laten ook zien dat de functie als regionaal hoofdkantoor van het buitenlandse bedrijf in het gastland sterk gerelateerd is aan de voorkeur voor een reactieve strategie. Buitenlandse bedrijven zonder (regionale) hoofdkantoorstatus hoeven zich slechts op een of enkele activiteiten te richten waardoor ze eerder een proactieve strategie met betrekking tot deze niet-marktgerelateerde zaken kunnen implementeren. Bedrijven met een hoofdkantoorfunctie moeten zich richten op meerdere activiteiten en vaak ook in meerdere landen waardoor het vaak complexer is om zich proactief op te stellen op alle zaken en in alle landen.

Uit eerdere analyses in hoofdstuk vier is tevens aangetoond dat aan de media een groot belang wordt toebedeeld. Het zesde hoofdstuk gaat daarom verder in op dit belangrijke instituut door vanuit het 'resource-based' perspectief de specifieke strategische en tactische acties te onderzoeken die het buitenlandse bedrijf gebruikt om vat te krijgen op de complexe invloeden van de media op hun bedrijfsvoering en prestaties en om de mogelijke voordelen ervan maximaal te benutten (bijvoorbeeld door informatieoverdracht en het opbouwen van een reputatie). Allereerst wordt bekeken hoe de waargenomen impact van de media in het gastland is opgebouwd. Factoranalyse heeft laten zien dat de waargenomen impact van de media op het gastland te verklaren is door verschillende componenten zoals: eerlijkheid; correctheid; bezorgdheid over het welzijn van de samenleving; onpartijdigheid; recentheid; aandacht voor feiten; onafhankelijkheid van media-instituten; betrouwbaarheid; bezorgdheid voor publieke belangen; geloofwaardigheid; professionalisme van het personeel in de media; vertrouwen in de media-instituten. Buitenlandse bedrijven hebben een andere waarneming van de impact die de media in het gastland hebben en van de voordelen die eruit kunnen voortvloeien (het opbouwen van een reputatie en informatieverbreiding). In overeenstemming hiermee ontwikkelen bedrijven, die de media in het gastland als heel belangrijk zien, interne trainingsprogramma's en maken ze actief gebruik van de pers en persconferenties om die impact in hun voordeel te gebruiken. Hiermee creëren zij een plaats voor zichzelf tussen

de instituten in het gastland, bouwen een geloofwaardige reputatie op en vergroten de stroom van informatie (specifiek aan het gastland). Buitenlandse bedrijven huren ook externe lobbyisten in om bepaalde problemen voor het bedrijf op te lossen en om een publiek imago te creëren dat de positie van het buitenlandse bedrijf met betrekking tot dat specifieke probleem verbetert.

Met betrekking tot de resources en vaardigheden die ter beschikking staan aan het buitenlandse bedrijf, staan ervaring en kennis in omgekeerde relatie met de soort actie die ondernomen wordt om voordeel te halen uit media-aandacht of om met de invloed van de media om te gaan. Wanneer buitenlandse bedrijven weinig ervaring hebben met de media in het gastland, dan hebben ze de neiging om een beroep te doen op media-experts en public relation-specialisten om samen te werken met mediabedrijven om het gebrek aan kennis te compenseren dat wordt veroorzaakt door hun gebrek aan ervaring. Dienstverlenende buitenlandse bedrijven werken echter samen met een breder scala belanghebbenden dan andersoortige bedrijven. Deze bedrijven houden zich meer bezig met het bouwen van netwerken en een degelijke reputatie voor hun belanghebbenden. De zelfde argumentering kan verklaren waarom er een sterke relatie is tussen buitenlandse bedrijven met een kleine afzetmarkt en hun voorkeur qua strategische acties. Een kleine afzetmarkt is een indicatie van weinig differentiatie van belanghebbenden en interessegebieden die te maken hebben met de activiteiten van het bedrijf, waardoor het bedrijf zich meer geroepen voelt om een goede reputatie en een goed netwerk onder deze belanghebbenden op te bouwen.

In zijn algemeenheid wordt het niet-marktgerelateerde gedrag van een bedrijf bepaald door niet-marktgerelateerde institutionele invloeden, die de frequentie van de niet-marktgerelateerde acties bepalen evenals welke specifieke strategieën worden gebruikt om met deze institutionele invloed om te gaan. Niet-marktgerelateerde strategieën zijn aanvullende strategieën om om te gaan met complexe invloeden van buiten de markt, om risico's en kansen vanuit de niet-marktgerelateerde omgeving te beheren en om niet-marktgerelateerde doelen te bereiken die de marktgerelateerde activiteiten aanvullen (Baron, 1995; Bonardi, Holburn & Van den Berg, 2006; Hillman & Hitt, 1999; Prakash, 2002). Deze niet-marktgerelateerde strategieën behandelen acties in publieke omgevingen om niet-marktgerelateerde zaken afkomstig van verscheidene instituten en tussen deze instituten en de activiteiten van het bedrijf te beheren (Wartick & Mahon, 1994). Niet-marktgerelateerde acties houden in: acties in het publieke domein (Baron, 1995; Schaffer & Hillman, 2000) om zaken te beheren die gerelateerd zijn aan een breed scala nationale of supranationale instanties, waaronder

belangenverenigingen, politieke instituten, de media, wetgevende instituten, standaardisatieorganen, die allemaal deel uitmaken van de niet-marktgerelateerde omgeving (North, 1990; Scott, 1995). De belangrijkste voorspellers voor deze strategieën en niet-marktgerelateerde acties worden bepaald door de specifieke eigenschappen van het bedrijf, hun interne resources en hun internationale ervaring.

ABOUT THE AUTHOR

'I wanted for the moments in my life to follow each other and order themselves like those of a life remembered. It would be just as well to try to catch time by the tail.' (La nausea. Jean-Paul Sartre, 1938)

Cosmina Lelia Voinea was born in Plenita, Romania. She started her first Bachelor study in 2000 at the University of Craiova, Romania, where she graduated with double specialization in Economic Sciences and Law. In 2003 she moved to the Netherlands where she obtained her second Bachelor of Science in Business Administration and her Master of Science Diploma in International Management from Radboud University Nijmegen.

In 2006, she started her PhD research at the Institute for Management Research and Nijmegen School of Management Radboud University Nijmegen. She is currently working as assistant professor at the same institution. Her research interests primarily center on market and nonmarket strategies, corporate social responsibility, and international business. Her work has been disseminated through presentations at academic international conferences and publications.